

CANADA AT THE IMF AND WORLD BANK

2007

Report on Operations Under
the Bretton Woods and
Related Agreements Act



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A Word From the Minister

I am pleased to present *Canada at the IMF and World Bank 2007: A Report on Operations Under the Bretton Woods and Related Agreements Act*. This report contains a summary of Canada's engagement at the International Monetary Fund (IMF) and World Bank in 2007 as well as our priorities for the future.

Building on the many improvements made to the content and presentation of last year's report, the 2007 document sets new standards for transparency and accountability. It clearly lays out Canada's medium-term priorities for the IMF and World Bank as well as the Government of Canada's strategy over the next three years to support these priorities. Building on Canadian accomplishments in 2007, the medium-term priorities focus on three areas where Canada can make a real difference, in line with our government's core principles:

- 1) Governance and Accountability.
- 2) Institutional Effectiveness.
- 3) Sustainable Poverty Reduction and Growth.

To make it more accessible to Canadians, the 2007 report has a new, more user-friendly format. The report includes improved descriptions of the IMF and World Bank that serve as a useful introduction for new readers, along with a concise summary of the specific Canadian approaches and actions planned at each institution.

Since 1944, the Bretton Woods Institutions have led international efforts to support a stable world monetary system and promote greater global development. In uncertain economic times like these, the world needs a strong and effective IMF—a more representative institution better able to monitor and respond to global crises. The World Bank, in turn, has a complementary and equally important mandate on poverty reduction.

It is my hope that this report will provide Parliamentarians and all Canadians with a full understanding of the important role Canada plays in making the IMF and World Bank more effective, efficient and accountable institutions.

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance



Acronyms Used in This Report

ADB	African Development Bank
AMC	Advance Market Commitment
ARTF	Afghanistan Reconstruction Trust Fund
BWIs	Bretton Woods Institutions
CAO	Compliance Advisor Ombudsman
CAS	Country Assistance Strategy
CCL	Contingent Credit Line
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CEIF	Clean Energy Investment Framework
CGIAR	Consultative Group on International Agricultural Research
CIDA	Canadian International Development Agency
DC	Development Committee
DSF	Debt Sustainability Framework
EFA-FTI	Education for All Fast Track Initiative
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
G7	Group of Seven
G8	Group of Eight
G20	Group of Twenty
GAC	Governance and Anti-Corruption
GAVI	Global Alliance for Vaccines and Immunization
GDP	gross domestic product
GEF	Global Environment Facility
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GFSR	<i>Global Financial Stability Report</i>
GPG	global public good
GRA	General Resources Account
HIPC	heavily indebted poor country
HNP	health, nutrition, and population
IAE	International Assistance Envelope
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group



IEO	Independent Evaluation Office
IFC	International Finance Corporation
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
INT	Department of Institutional Integrity
IRFFI	International Reconstruction Fund Facility for Iraq
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
NCBP	Non-Concessional Borrowing Policy
OECS	Organisation of Eastern Caribbean States
PBGI	Performance-Based Grants Initiative
PDMAS	Programme de Développement des Marchés Agricoles du Sénégal (Development Program for Agricultural Markets in Senegal)
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Analysis
QAG	Quality Assurance Group
RTAC	Regional Technical Assistance Center
SAF	Structural Adjustment Facility
SDR	Special Drawing Right
SPP	Statement of Surveillance Priorities
StAR	Stolen Asset Recovery initiative
TF	Transfer Fund
UN	United Nations
UNCAC	United Nations Convention Against Corruption
WEO	<i>World Economic Outlook</i>



Executive Summary

Membership at the International Monetary Fund (IMF) and the World Bank provides Canada with a valuable opportunity to participate in decisions related to international monetary stability and global poverty reduction. As the IMF's ninth largest shareholder and the World Bank's seventh largest shareholder, Canada has a strong voice and a responsibility to help these institutions remain relevant and effective.

As in past years, the aim of this report is to provide Canadians with an understanding of how the Government of Canada is contributing to the development of IMF and World Bank policies.

This year's report has three main components:

- 1) A basic introduction to the IMF and World Bank, including information on how they operate, what they do, and how Canada participates in their governance (see the sections "Canada and the Bretton Woods Institutions: Mandates and Operations," "An Introduction to the International Monetary Fund" and "An Introduction to the World Bank").
- 2) Canada's activities in 2007, including progress on the priorities laid out in the 2006 edition of this report and Canada's involvement in other major developments at the institutions (see the sections "Canada at the IMF: What Happened in 2007" and "Canada at the World Bank: What Happened in 2007").
- 3) Canada's medium-term priorities, describing where Canada plans to concentrate its efforts and advocacy over the next three years, including measurable deliverables (see the sections "Canada's Medium-Term Priorities at the Bretton Woods Institutions" and "Summary of Canada's Medium-Term Priorities at the Bretton Woods Institutions").

Canada's Activities in 2007

At the IMF

As laid out in the section "Canada at the IMF: What Happened in 2007," Canadian priorities at the IMF in 2007 focused on efforts to reform the institution's governance, operational and financial structures. Canada has been very active in the reform process, leading the debate on quota and voice reforms to realign voting shares and give greater voice to dynamic developing country members. Canada has also promoted reforms to improve the effectiveness of IMF surveillance of member economies. The need to cut spending, focus IMF outputs and raise new sources of income has become another key area of action over recent months. Successes have been mixed, but overall the IMF is making progress in efforts to increase its legitimacy, credibility and effectiveness.

Other 2007 developments at the IMF include the selection of a new Managing Director, under an improved, more transparent selection process that Canada championed, and the release of three new Independent Evaluation Office studies regarding the effectiveness of IMF work in selected areas.



At the World Bank

As described in the section “Canada at the World Bank: What Happened in 2007,” Canada had two main priorities at the World Bank in 2007. The first was to use the opportunity presented by the financial replenishment of the Bank’s International Development Association (IDA) to push for enhanced support for fragile states, debt sustainability and a focus on results. During these replenishment discussions, Canada and other donors proposed a number of important enhancements to the Bank’s support for fragile states, debt sustainability, a better focus on results and effectiveness, and climate change that will be implemented by the Bank over the next three years.

The second priority was to further promote debt sustainability, including through clearance of large debt arrears that certain low-income countries accumulated during long periods of conflict. In 2007, Canada and other Group of Eight (G8) countries played a leading role in organizing the clearance of US\$1.5 billion in arrears owed by Liberia to the IMF, World Bank and African Development Bank. This was the first case of large-scale arrears clearance by the international community and will help pave the way for other cases in the future, including for Côte d’Ivoire and Sudan.

Other major developments at the World Bank during 2007 included the election of a new President, the introduction of new policies and strategies on governance and anti-corruption, health and clean energy, as well as the launch of two innovative development initiatives in which Canada played a leading role: the Advance Market Commitment and the Caribbean Catastrophe Risk Insurance Facility. Canada’s involvement in these discussions is described in the section “Canada at the World Bank: What Happened in 2007.”

Canada’s Medium-Term Priorities

Canada’s medium-term priorities at the IMF and World Bank can be grouped under three broad themes:

- 1) **Governance and Accountability**—including internal governance reforms to improve the voice of middle-income and developing countries at both institutions, financial sustainability and more transparency.
- 2) **Institutional Effectiveness**—including improvements to the IMF’s surveillance function, more effective aid and innovative development initiatives to promote private sector participation in development.
- 3) **Sustainable Poverty Reduction and Growth**—including enhanced support for debt sustainability, fragile states, gender equality and environmental sustainability.

Specific actions to be taken in support of these priorities are described in the sections “Canada’s Medium-Term Priorities at the Bretton Woods Institutions” and “Summary of Canada’s Medium-Term Priorities at the Bretton Woods Institutions.” Anticipated timelines, ranging from one to three years, are listed for each action. Subsequent reports will assess progress against these priorities.



Canada and the Bretton Woods Institutions: Mandates and Operations

The IMF and the World Bank

- While the IMF and the World Bank were both founded at the Bretton Woods conference in 1944, they are separate institutions.
- The IMF aims to maintain a stable international monetary system, thereby facilitating international trade and investment and the prosperity these bring to all the world's economies.
- The World Bank provides support to developing countries and is committed to poverty reduction.
- Their complementary mandates contribute to sustainable economic growth and the alleviation of global poverty.

The International Monetary Fund (IMF) and the World Bank were founded at the United Nations Monetary Conference held at Bretton Woods, New Hampshire in 1944. They were created to promote reconstruction following the devastation of the Second World War and to establish the basis for a stable world monetary system that would sustain growth and prosperity. Together they are informally known as the Bretton Woods Institutions.

Canada is the ninth largest member of the IMF and the seventh largest member of the World Bank, out of a total membership of 185 in both institutions. These strong membership positions give Canada an important voice in the two leading international institutions devoted to promoting international financial stability and poverty reduction. Canada's status as a member and leading donor also contributes to Canada's strong position on the international stage.

The IMF and World Bank are governed by their member countries. The management and staff of each institution are accountable to their members through their respective Boards of Governors and Boards of Executive Directors. They also report on their performance to members and the general public through annual reports, policy documents, country reports and analytical studies.

The IMF and the World Bank each have a separate Board of Governors, comprising 185 governors representing each member country. Each Board is the highest authority governing these institutions. They are responsible for core institutional decisions and meet once a year at the IMF and World Bank Annual Meetings. The Minister of Finance is Canada's Governor for both the IMF and the Bank.

The Boards of Governors have two sub-committees: the International Monetary and Financial Committee (IMFC),¹ which advises on global monetary and financial issues for the IMF, and the Development Committee (DC),² which advises on critical development issues for both the IMF and World Bank. IMFC and DC Meetings are held twice a year during the IMF and World Bank Spring Meetings and Annual Meetings. Twenty-four governors sit on each committee. When participating in the IMFC and DC, Canada's Minister of Finance represents a constituency that includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Guyana,³ Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

¹ Reports to the IMF's Board of Governors.

² Reports to the IMF and World Bank's Boards of Governors.

³ The constituency includes Guyana for the DC only.



Table 1

Canadian Influence at the IMF and World Bank

The Canadian Government makes its views known through a number of channels:

Governor's statements at the International Monetary and Financial Committee and Development Committee Meetings	See Annexes 1 and 2
Policy advice to the Executive Director	Described in the sections "Canada at the IMF: What Happened in 2007" and "Canada at the World Bank: What Happened in 2007"
Policy discussions during the International Development Association replenishments at the World Bank	Described in the section "Canada at the World Bank: What Happened in 2007"
Contributions to Multi-Donor Trust Funds	See Annex 10

The Boards of Governors delegate the day-to-day running of the IMF and World Bank to Executive Boards, each with 24 full-time Executive Directors. The Executive Boards reside in Washington, DC, and meet several times each week. Each Executive Director typically represents a constituency, which corresponds with IMFC and DC constituencies. The constituency to which Canada belongs is the same as that described above.

The Executive Directors that represent Canada are employees of the IMF and World Bank, and are elected by the Governors of their constituents every two years, usually based on a nomination made by the Canadian Governor. Mr. Jonathan Fried has represented our constituency at the IMF since April 2006 and Mr. Samy Watson has represented our constituency at the World Bank since September 2006. The Government of Canada provides advice to the Executive Directors and their staff, which they draw upon in developing positions for discussions at the Executive Board. Executive Directors also receive advice from other country members in their constituency and apply their own judgement as officers of the institutions.

Governors are typically asked to vote on specific resolutions and other matters requiring their approval, either at the Annual Meetings of the Boards of Governors or by mail at other times throughout the year. In contrast, most decisions by the Executive Boards are adopted in a spirit of consensus and formal recorded votes are rare (though, when a vote is taken, the Executive Director casts the votes of the entire constituency).

The voting power of members is mainly a function of their relative economic strength. A small share of a member's voting power is also determined by basic votes, which are distributed equally among all members. Canada's current voting share at the IMF and World Bank is 2.89 per cent and 2.78 per cent, respectively.

Within the Government of Canada, the Department of Finance coordinates Canada's policy advice on IMF and World Bank issues, consulting closely with other government departments and agencies, particularly the Bank of Canada, the Canadian International Development Agency (CIDA) and the Department of Foreign Affairs and International Trade. Indeed, two of these departments and agencies play a critical role: the Governor of the Bank of Canada, Mark Carney, is Canada's Alternate Governor at the IMF, and CIDA President Robert Greenhill is Canada's Alternate Governor at the World Bank.



It is important to note that while Canada has a number of avenues through which it can influence IMF and World Bank policies, we are one of 185 members. Canada is also part of a constituency and, as a result, while it can provide advice to the Executive Directors, they will also take into account the views of all of the members of their constituencies in developing positions on matters before the Board.

Outreach in 2007

In October 2007, the Minister of Finance met with civil society representatives to discuss their views on the respective reform agendas of the Bretton Woods Institutions. The Minister also sought input from civil society participants on how to improve efforts to increase focus, accountability and effectiveness in Canada's international assistance program. Attendees reflected a broad range of civil society representation, including non-governmental organizations, think tanks and academics. The IDA15 replenishment discussions also provided an opportunity for consultation. Participants met with a panel of African opinion leaders during their meeting in Maputo, Mozambique, in June 2007 and Department of Finance officials met with a number of civil society organizations before the replenishment meeting in October 2007.

Canada's Executive Directors at the IMF and World Bank also met with a variety of stakeholders, including governmental and civil society organizations and those pursuing business opportunities at the respective institutions.

In 2007, the IMF Executive Director and his staff met with many Canadian, Irish and Caribbean officials and civil society organizations, often alongside their counterparts from the Executive Director's Office at the World Bank. These meetings included representatives from the New Rule Committee, Canadian Manufacturers and Exporters, Caribbean Policy Research Institute, Canadian Association of Petroleum Producers, Oxfam International, Trócaire, the Halifax Initiative, Results-Résultats Canada, and Transparency International. Staff from the IMF Executive Director's Office also met with delegations from the Queen's University School of Policy Studies, Canadian Forces College, Université de Sherbrooke, and École Secondaire Serge Bouchard (Baie Comeau).

The World Bank Executive Director's Office met with representatives from the United Kingdom Department for International Development and the Commonwealth Secretariat. The Office also met with representatives from Canadian and international civil society, including the Debt and Development Coalition of Ireland, Engineers Without Borders, Results-Résultats Canada, Oxfam International, the Pygmies Indigenous People Association Network and Dignité Pygmée, Océan, ActionAid International, the Halifax Initiative, the Social Justice Committee of Montreal, the Bank Information Center, Global Witness, the World Conservation Union, the World Wildlife Fund, the World Resources Institute, Trócaire, Environmental Defense, the Global Organization of Parliamentarians Against Corruption, Inclusion International and DATA, to discuss a variety of development policy issues. The Office also met with students from the Canadian Forces College, Université Laval and École Secondaire Serge Bouchard (Baie Comeau).



An Introduction to the International Monetary Fund

The IMF works to safeguard the stability of the international monetary system while promoting sustainable economic growth and raising global living standards.

The primary responsibilities of the IMF are to:

- Promote international monetary cooperation.
- Facilitate the expansion and balanced growth of international trade.
- Promote exchange rate stability.
- Assist in maintaining a multilateral system of payments.
- Provide resources to members experiencing balance of payments difficulties.

Balance of Payments

The balance of payments is a summary of the economic transactions—including transactions in goods, services, income, transfers and financial assets and liabilities—between the residents of a country and non-residents over a specific period of time, usually a year.

Membership and Governance Structure

Headquartered in Washington, DC, the IMF is governed by and accountable to the governments of its 185 member countries. Each of the 185 member countries appoints one Governor and one Alternate Governor, usually the Minister of Finance and/or the Governor of the central bank, to the Board of Governors.

The relationship between the IMF Board of Governors, the International Monetary and Financial Committee, the joint IMF-World Bank Development Committee and the IMF Executive Board is described in the section “Canada and the Bretton Woods Institutions: Mandates and Operations” and is illustrated in Figure 1.

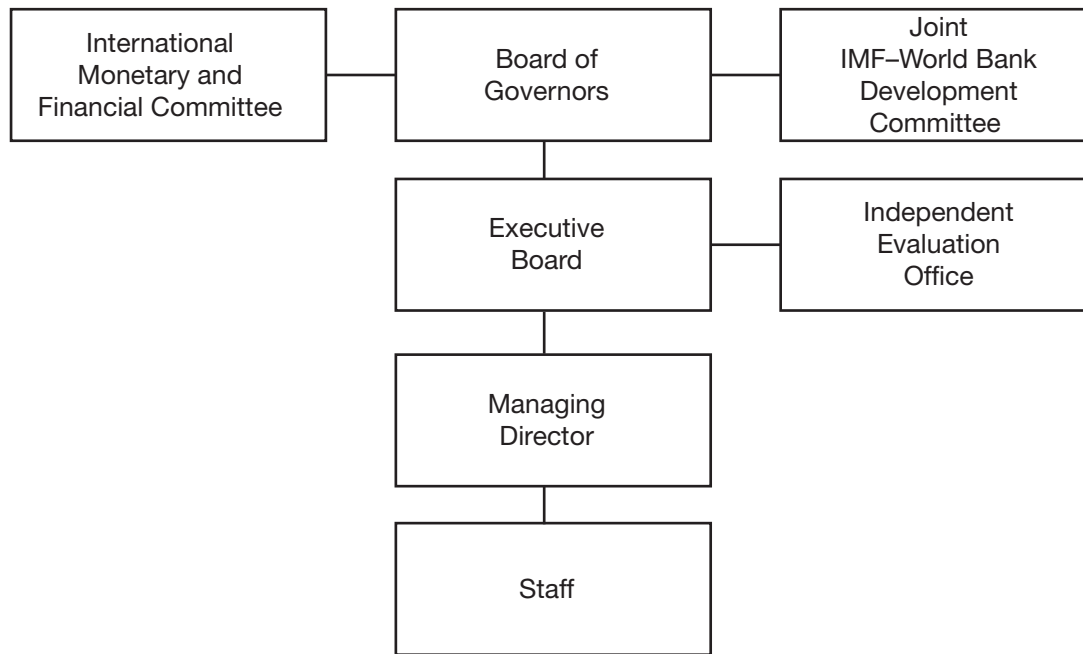
The Managing Director is nominated and appointed by the Executive Board for a renewable five-year term. The Managing Director serves as chair of the Executive Board and chief of the operating staff of the IMF. The present Managing Director, Mr. Dominique Strauss-Kahn, took office on November 1, 2007.

IMF staff members are appointed by the Managing Director and are solely responsible to the IMF. As of April 30, 2007, the IMF employed 2,678 staff (from 142 member countries). Efforts are made to hire qualified nationals from the largest possible number of members.

In addition, the Independent Evaluation Office (IEO) conducts independent evaluations of IMF policies and activities. The IEO is fully independent of IMF management and operates at arm’s length from the Executive Board. The Director of the IEO is selected by the Executive Board for a renewable four-year term, and IEO staff is recruited from both inside and outside the IMF.



Figure 1
IMF Organizational Chart



What the IMF Does

IMF activities focus on three primary areas, all aimed at promoting a prosperous global economy by contributing to international monetary stability:

- **Surveillance:** Promoting financial and macroeconomic stability and growth through surveillance activities and policy advice that can help members prevent or resolve financial crises, sustain strong economic growth and alleviate poverty.
- **Program support:** Providing temporary financing and policy support to member countries to help them address balance of payments and/or fundamental macroeconomic problems.
- **Capacity building:** Providing technical assistance and training to help countries build the expertise and institutions they need to implement sound economic policies.



A Brief History of the IMF

1945—Canada and 28 other governments sign the IMF Articles of Agreement.

1947—IMF begins operations; first loan drawn by France.

1971—United States informs IMF that it will no longer freely buy and sell gold to settle international transactions; the established US dollar-gold fixed exchange rate system (Bretton Woods System) collapses.

1974—IMF adopts “Guidelines for the Management of Floating Exchange Rates.”

1976—IMF establishes Trust Fund to provide balance of payments assistance to developing country members with profits from the sale of gold.

1977—To adapt to the new world of largely floating exchange rates, IMF Executive Board adopts the “1977 Decision” to guide IMF surveillance of member economies and exchange rate policies.

1986—IMF establishes Structural Adjustment Facility, later replaced by the Enhanced Structural Adjustment Facility (1987) and the Poverty Reduction and Growth Facility (1999), to provide balance of payments assistance on concessional terms to low-income developing countries.

1993—Systematic Transformation Facility established to assist countries of the former U.S.S.R. that face balance of payments difficulties arising from the transformation from a planned to a market economy.

1996—IMF endorses joint debt relief initiative for heavily indebted poor countries (HIPC Initiative).

2003—IMF approves joint IMF-World Bank project to monitor the policies and actions needed for the achievement of the Millennium Development Goals by 2015.

2007—IMF Executive Board adopts a new Decision (to replace the 1977 Decision) that will serve as a modern guide for strengthened bilateral surveillance of member economies and exchange rate policies.

Surveillance—Oversight of the Global Economy

The IMF identifies risks to global economic and financial stability through the surveillance of national, regional and global economic developments. Article IV of the IMF Articles of Agreement requires the Fund to undertake regular consultations with each member country on economic conditions and policies. Through its regular Article IV consultations with each member, the IMF identifies policy strengths and weaknesses and provides advice on necessary corrective measures. Under Article IV, each member country agrees to seek to pursue policies conducive to the stability of the international monetary system, and global growth and prosperity. The Article IV consultations consist of regular (usually annual) staff visits with government and central bank officials. Additionally, IMF staff generally meets with legislators and representatives from the financial sector, industry, trade unions and academia to broaden its exposure to ongoing policy debates and promote better understanding of IMF views with stakeholders. Following these consultations, staff prepares a report, which is considered by the IMF’s Executive Board. In almost all cases, the staff report is published, along with a summary of Executive Directors’ views as expressed in the Board discussion.



Summary of Article IV Obligations

Article IV of the IMF Articles of Agreement sets the “rules of the game” that each member country has voluntarily committed to abide by to ensure the smooth functioning of the international monetary system. Each member country is obligated to:

- Pursue economic and financial policies that promote orderly economic growth with reasonable price stability.
- Promote a stable monetary system by fostering orderly underlying economic and financial conditions.
- Avoid manipulating exchange rates or the international monetary system to prevent effective balance of payments adjustment or gain an unfair competitive advantage over other members.
- Facilitate the information necessary for the Fund to exercise firm surveillance over the exchange rate policies of members.

In return, the IMF is bound to adopt specific principles for the guidance of all members with respect to exchange rate policies consistent with the above, but that respect the domestic social and political policies and circumstances of members.

Recognizing the growing importance of regional linkages, the IMF has placed an increased emphasis on regional surveillance and possible spillovers from national economic policies. For example, the IMF holds discussions with representatives of currency unions, such as the Eastern Caribbean Central Bank, and produces semi-annual regional economic outlooks that discuss recent economic developments and prospects for countries in various regions.

In addition to its bilateral consultations with members under Article IV, the IMF conducts important regional and multilateral surveillance of developments in the overall global economy and financial and monetary system. The main products of IMF multilateral surveillance are the semi-annual *World Economic Outlook* (WEO) and the *Global Financial Stability Report* (GFSR). These reports foster discussion at the Executive Board and with capitals, and are subsequently published.⁴ The Executive Board also holds regular informal discussions on world economic and financial market developments.

Program Support—Lending and Policy Advice

The IMF provides program support to its members through a variety of financial and policy instruments to help countries with balance of payments problems. Each mechanism is tailored to a member country’s particular circumstances.

The IMF works much like a credit union. Although the IMF has only limited resources of its own, it has access to a large pool of liquid resources provided by its members, comprising convertible national currencies, Special Drawing Rights (SDRs), and other widely used international currencies. It makes these resources available to help members finance temporary balance of payments problems.

⁴ For the October 2007 WEO see: www.imf.org/external/pubs/ft/weo/2007/02/index.htm and for the October 2007 GFSR see: www.imf.org/External/Pubs/FT/GFSR/2007/02/index.htm.



When requested to do so, members provide resources to the IMF in amounts determined by quotas reflecting each country's relative economic weight in the global economy. A country's quota in turn helps determine the amount of IMF resources that it may access should it experience economic difficulties. At the end of September 2007, the total quota for the Fund's 185 members stood at SDR 217.3 billion (about US\$338.3 billion).⁵ Canada's contribution to this total is presently SDR 6.3 billion (about US\$9.8 billion).⁶ Canada's quota represents the maximum amount that it would be asked to lend to the IMF, from its international reserves, to assist other members experiencing financial difficulties.

Special Drawing Right (SDR)

An SDR is the international reserve asset created by the IMF to supplement the existing official reserves of member countries. The SDR serves as the unit of account of the IMF and its value is based on a basket of key international currencies.

A member country may seek an IMF financial program in response to a serious balance of payments or fiscal problem. In these cases, the IMF provides financing to allow the country to purchase needed imports or bolster its foreign exchange reserves. The member country obtains access to the general resources of the IMF by purchasing (drawing) other members' currencies with an equivalent amount of its own currency. A member repays the IMF by repurchasing its own currency with other members' currencies over a specified period of time, with interest. In this way, a member country borrows from other members, with the IMF as an intermediary.

Members providing the resources lent to a country facing balance of payments difficulties receive a competitive rate of interest on the resources they have provided. The interest rate approximates the return members would have received on alternative safe and liquid investments. As members receive interest, and do not provide grants to finance the Fund's general operations, membership in the IMF does not entail a direct budgetary cost.

Members requesting financial assistance reach an agreement with the IMF staff on a set of economic measures and reforms aimed at removing the underlying source of the country's balance of payments difficulty. The details of this integrated economic program (often referred to as conditionality) and the amount and duration of financing are then approved by the Executive Board. Typically, IMF financial assistance is provided in stages, or tranches, with the release of each tranche accompanied by verification that the country is continuing to follow the agreed economic program, and is meeting agreed policy conditions.

Depending on the prospective size and duration of the problem, these measures are agreed to as part of a Stand-By Arrangement, which typically lasts one to two years, or an Extended Fund Facility, which generally runs for three years. Short-term financing for balance of payments difficulties related to crises of market confidence is also available through the Supplemental Reserve Facility. Members affected by a natural disaster or emerging from a conflict can also access IMF facilities on an expedited basis through an emergency assistance program.

⁵ www.imf.org/external/np/exr/facts/quotas.htm.

⁶ www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=130&date1key=2008-02-05.



Over the past decade, the IMF has developed new instruments to strengthen its support to low-income member countries. Below market rate (concessional) financing to low-income developing countries is made available through the Poverty Reduction and Growth Facility (PRGF) in the form of low-interest loans with extended repayment periods. The Exogenous Shocks Facility (ESF), established in 2006, provides timely concessional support to low-income countries that are facing a balance of payments problem resulting from exogenous shocks, such as a spike in energy prices or a significant deterioration in terms of trade. The interest rate on PRGF and ESF loans is 0.5 per cent, and loans are repaid over a period of 10 years, with 5½ years' grace.

A Policy Support Instrument (PSI) is available to members that do not need or want IMF financial assistance but voluntarily request IMF endorsement and continued monitoring of their policies. A PSI signals IMF support for a member country's policies, helping to inform the decisions of private and public creditors, official donors and the general public. Canada was a strong advocate of the development of this instrument, which was introduced in late 2005. As of 2007, Cape Verde, Mozambique, Nigeria, Uganda and Tanzania have benefited from PSI arrangements.

Table 2
IMF Lending Facilities

Credit Facility (Year Established)	Purpose	Conditions
Credit tranches and Extended Fund Facility		
Stand-By Arrangements (1952)	Medium-term assistance for countries with balance of payments difficulties of a short-term character.	Adopt policies that provide confidence that the members' balance of payments difficulties will be resolved within a reasonable period.
Extended Fund Facility (1974)	Longer-term assistance to support members' structural reforms to address balance of payments difficulties of a long-term character.	Adopt a 3-year program with a structural agenda and an annual detailed statement of policies for the next 12 months.
Special facilities		
Supplemental Reserve Facility (1997)	Short-term assistance for balance of payments difficulties related to crises of market confidence.	Available only in the context of Stand-By or Extended Arrangements with an associated program and with strengthened policies to address loss of market confidence. Although amounts provided can be larger than those under a regular Stand-By Arrangement, interest is charged at a penalty rate to encourage early repayment.
Compensatory Financing Facility (1963)	Medium-term assistance for temporary export shortfalls or cereal import excesses.	Available only when the shortfall/excess is largely beyond the control of the authorities and a member has an arrangement with upper credit tranche conditionality, or when its balance of payments position excluding the shortfall/excess is satisfactory.



Table 2 (cont'd)

IMF Lending Facilities

Credit Facility (Year Established)	Purpose	Conditions
Special facilities (cont'd)		
Emergency assistance— natural disasters (1962) and Post-conflict (1995)	Assistance for balance of payments difficulties related to natural disasters or the aftermath of civil unrest, political turmoil, or international armed conflict.	Minimal conditions are applied, consisting of reasonable efforts to overcome balance of payments difficulties with a focus on institutional and administrative capacity building to pave the way toward an upper credit tranche arrangement or PRGF.
Facilities for low-income members		
Poverty Reduction and Growth Facility (1999)	Longer-term assistance for deep-seated balance of payments difficulties of a structural nature; aimed at sustained poverty-reducing growth.	Adopt 3-year PRGF arrangements based on a Poverty Reduction Strategy Paper prepared by the country in a participatory process and integrating macroeconomic, structural and poverty reduction policies.
Exogenous Shocks Facility (2006)	Short-term assistance to address a temporary balance of payments need arising from an exogenous shock (e.g. a spike in energy prices).	Adopt a 1-2 year program involving macroeconomic adjustments allowing the country to adjust to the shock and structural reform is considered important for adjustment to the shock, or mitigating the impact of future shocks.

Source: IMF, *Annual Report 2007*, p. 34.

Capacity Building

Technical assistance is another core function of the IMF. The IMF offers technical assistance in its areas of expertise such as macroeconomic policy, tax and revenue administration, public expenditure management, monetary policy, exchange systems, financial sector reform, and statistical capacity building. Most technical assistance is provided free of charge to member country authorities.



Table 3

Regional Technical Assistance Centers (RTACs)

Centre Name (Location) Year Opened	Beneficiary Countries and Territories
Pacific RTAC (Suva, Fiji) 1993	Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu.
Caribbean RTAC (Bridgetown, Barbados) 2001	Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Cayman Islands, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos, and Virgin Islands.
East AFRITAC (Dar es Salaam) 2002	Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda.
West AFRITAC (Bamako, Mali) 2003	Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, and Togo.
Middle East RTAC (Beirut, Lebanon) 2004	Islamic Republic of Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syrian Arab Republic, West Bank and Gaza, and Republic of Yemen.
Central AFRITAC (Libreville, Gabon) 2007	Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Equatorial Guinea, and Gabon.

In collaboration with member countries, the IMF delivers technical assistance through missions from headquarters, short-term expert assignments, long-term resident advisors or regional centers. In addition to the IMF Institute, based in Washington DC, seven regional training institutes and six RTACs deliver more accessible and regionally tailored programming to member countries across the globe.

Canada is a major contributor to the IMF training programs, including the provision of support for the Africa Technical Assistance Centers, the Caribbean Regional Technical Assistance Center, the Financial Sector Reform and Strengthening Initiative and the Iraq Technical Assistance Program.

Canada and the IMF

As one of 185 member countries, Canada plays an important collaborative role with our international partners to ensure that the IMF has the tools it needs to fulfil its mandate of promoting international monetary and financial stability. A healthy global economy helps create more jobs for Canadians, promotes stable prices for goods and services, and improves our standard of living. Canada's participation at the IMF encourages international cooperation, sustainable economic growth and better living standards for citizens across the globe.

As a result of the relatively large size of the Canadian economy, and its openness to international trade, Canada has a significant voting share at the IMF (see Table 4). As a result, a Canadian has historically held a seat on the Executive Board, which is composed of 5 appointed member countries and 19 elected member countries and constituencies. Canada's seat on the Executive Board represents a constituency that includes Ireland and member countries from the Commonwealth Caribbean. Although Canada's voting share at the IMF is 2.89 per cent, the Executive Director casts the votes of all members of the constituency, for a total of 3.64 per cent. In the event of a vote, the Executive Directors of multi-country constituencies must cast all of the votes of their members as a block.



Table 4
Voting Shares of the 12 Largest Members of the IMF

Country	% of Total Voting Shares
United States	16.79
Japan	6.02
Germany	5.88
United Kingdom	4.86
France	4.86
China	3.66
Italy	3.20
Saudi Arabia	3.17
Canada	2.89
Russia	2.70
Belgium	2.09
India	1.89

Office of the IMF Executive Director for the Canadian, Irish and Caribbean Constituency

Executive Director	Jonathan Fried (Canada)
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Canada at the IMF: What Happened in 2007

This section describes how Canada delivered on its priorities for 2007, as set out in the 2006 *Report on Operations Under the Bretton Woods and Related Agreements Act*. It also provides an overview of other major developments at the IMF in 2007. For each major issue, it describes Canada's involvement and summarizes our views, as conveyed through advice to the Executive Director's Office as well as statements at IMFC Meetings. The section ends with Canada's voting record at the IMF for 2007.

Canada's Priorities in 2007

In the "Looking Ahead" section of the 2006 report, we described Canada's institutional reform priorities at the IMF for 2007 as:

- Quotas, voice and representation.
- Strengthening surveillance activities.
- Innovative IMF lending facilities.
- Improved financing of the IMF.

The following section reports on Canadian achievements and challenges in these and other key areas of IMF activity.

IMF Reform

Canada played an influential role at the IMF in a number of priority areas in 2007. While the IMF continued its global economic oversight role in an increasingly challenging environment, many discussions at the Executive Board, international Finance Ministers' groupings and the IMFC tended to be focused on reforms to the institution. The IMF reform agenda, originally outlined in the 2006 Medium-Term Strategy (see Table 5), continues to progress. The objectives set out in the Medium-Term Strategy focus on improving IMF surveillance, crisis prevention instruments, low-income country support, capacity building, member country representation (quota and voice), and the Fund's governance and internal management practices.⁷

⁷ For more information on the IMF's Medium-Term Strategy see: www.imf.org/external/np/exr/ib/2006/041806.htm and *Annual Report 2007*, p. 10.



Table 5

The IMF's Medium-Term Strategy

Issue	Objectives
New directions in surveillance	<ul style="list-style-type: none"> • Modernize the surveillance framework. • Develop new approaches to multilateral consultations. • Strengthen financial sector surveillance. • Sharpen and focus country surveillance.
Emerging markets and crisis prevention	<ul style="list-style-type: none"> • Deepen financial sector and capital market surveillance. • Reassess the adequacy of existing instruments for crisis prevention.
More effective engagement in low-income countries	<ul style="list-style-type: none"> • Help low-income countries achieve the Millennium Development Goals • Deepen involvement in dealing with aid flows. • Help countries that have received debt relief avoid reaccumulating unsustainable debt.
Improving capacity building	<ul style="list-style-type: none"> • Bolster capacity building in developing countries. • Target technical assistance and training to better address vulnerabilities identified through surveillance activities.
Quota and voice reform	<ul style="list-style-type: none"> • Reinforce IMF effectiveness and legitimacy through progress on quota and voice reform.
IMF governance and management reform	<ul style="list-style-type: none"> • Strengthen communication and transparency. • Make the IMF more cost-effective and efficient. • Put IMF finances on a sustainable footing.

Limited Progress on IMF Quota and Voice Reform

Canada believes that an IMF governance structure that is representative of the growing importance of emerging markets in the global economy is essential for the institution's longer-term credibility and legitimacy. The present structure has left certain dynamic economies, many of which are rapidly growing emerging market countries, under-represented relative to their weight in the world economy. This risks undermining the effectiveness of the IMF as an international forum. Discussions are now underway to modernize the quota formula and realign voting power in order to address this problem. Governance reform will strengthen the IMF's legitimacy and, thus, its effectiveness in influencing members with its policy advice.

It is important to note, however, that although the issue has often been cast as an advanced versus developing country debate, there are both advanced and developing countries that are over-represented or under-represented in their current voting share. The need for a realignment of voting shares is the biggest challenge facing the IMF membership.

Canada has been a leader in the quota debate, both at the IMF Executive Board and within the Group of Seven (G7) and Group of Twenty (G20) Finance Ministers' fora, and has made significant efforts to develop proposals and play a bridge-building role. We were a strong proponent of launching the exercise ahead of the 2006 Annual Meetings and have worked hard since then to build a broad-based consensus.



At the 2006 Annual Meetings, IMF Governors agreed to support an increase in IMF quota share for four significantly under-represented countries (China, Mexico, South Korea and Turkey) as a “down payment” for future quota and voice reforms. The deadline for these reforms was set as the 2008 IMF Annual Meeting. The reforms entail developing a new formula that generates quota shares that better reflect countries’ relative weights in the global economy. In addition, it was agreed that each member should receive an increase in basic votes (that are uniform in number and not based on quota size) to ensure that the voice of small and low-income members is protected going forward.

Since 2006, considerable effort has gone into designing a new quota formula and examining how it would be used to determine members’ quota levels and voting power. Canada has proposed innovative ideas for a new quota formula based on a principles-based approach in which market-based gross domestic product (GDP) is the primary variable, but which also provides a role for purchasing power parity (PPP) GDP. A PPP measure of GDP benefits developing countries by more favourably measuring their economic output.

What is Purchasing Power Parity (PPP)?

A PPP measure of economic wealth adjusts exchange rates so that an identical good in two different countries has the same price when expressed in the same currency. For example, an equivalent loaf of bread that sells for C\$1.00 in a Canadian bakery should cost 24.00 Russian rubles in a Russian bakery when the exchange rate between Canada and Russia is 24.00 RUB/C\$.

Progress has been made in coming to a consensus on a new quota formula, including general agreement on the specific variables to include in the formula. Advanced economies have also indicated their willingness to compromise by including a PPP GDP component. As a result of quota and voice reforms, the vote share of dynamic economies, many of which are emerging markets, is expected to increase. In addition, there is general agreement that the number of basic votes awarded to each country should at least be doubled, and perhaps tripled, to ensure that the voice of low-income countries is protected.

However, a consensus has remained elusive. Many developing countries want a much larger role for PPP GDP in the equation and a significantly greater shift in voting power from advanced to developing countries than can be generated from the proposals currently under consideration.

Although our own voting weight will almost certainly decline after the exercise, Canada views this as appropriate and supports the objectives of reform. In particular, we support a simple and transparent formula, which will reward dynamic economies and realign quota shares. We also strongly support protecting the vote share of low-income countries. In order for the reforms to pass, a majority of 85 per cent of votes is required. Considerable flexibility on the part of all member countries will be required to meet the fall 2008 deadline for a new agreement.

Given its fundamental importance to the credibility and effectiveness of the IMF, Canada will continue to play a leading role in the debate on quota and voice reforms, trying to bridge the gaps between the major stakeholders to reach an equitable and durable solution.



Distilling the IMF Quota Reform Debate

The goal of quota and voice reform is to realign members' quota shares with their current weights in the global economy using a single, simple formula. This is meant to increase transparency and provide a modern, lasting system for determining IMF member quota (and thus voting) shares.

At present, quota shares are calculated using five separate formulas, developed over 50 years ago. In varying proportions, the formulas measure market-based GDP, foreign reserves, current cross-border payments, current cross-border receipts, and variability of current receipts (i.e. how stable inflows are). Under a complex procedure, the data for each member country is inputted into the formulas that they choose to utilize, and then the different formula totals are averaged to maximize the final result for the member. The results of all members are then scaled so that quota shares sum to 100 per cent. This process is neither simple nor transparent.

In Canada's view, the new formula should reward openness and economic dynamism, which will increase the influence of many emerging markets. The new formula will likely be based on a mixture of GDP, reserves, economic openness, and variability of capital and goods flows.

The Canadian Proposal

Many quota formula proposals currently under consideration may not immediately provide an increase for some important emerging market members. To assist these dynamic economies, Canada and the G7 proposed that the new formula be paired with a filter. This was intended to guarantee a boost in the quota shares of countries that have contributed significantly to global GDP growth measured on a PPP basis. At the same time, under-represented G7 countries would limit themselves to accepting smaller quota increases than they deserve, freeing up room for boosting the quotas of other under-represented countries.

Alternatively, Canada has proposed that if PPP GDP is to form part of the quota formula, that the PPP component of the formula should sunset over time. This would facilitate an incentive-based, principled formula while providing a down payment on future growth in the economies of emerging markets.

Encouraging Progress on Strengthening IMF Surveillance

Surveillance of world economic and financial conditions is a core function of the IMF and another critical element for its credibility and effectiveness. The 2006 report identified strengthening surveillance as a key priority for progress in 2007; specifically, Canada would support reforms to IMF surveillance that promote objective and even-handed economic policy assessments, scrutinize members that pursue policies with negative spillover effects, and promote a high level of public transparency.

In 2007, Canada was a driving force for improvements to the IMF's surveillance framework, pushing discussions forward at the Executive Board, and arguing the merits of strengthened surveillance in fora such as the G7 and G20 Finance Ministers' Meetings. Recent progress on this issue represents an important success story. The IMF now has better tools and an improved governance structure to carry out candid, targeted and even-handed surveillance that is better able to identify threats to external stability.

In June, the Executive Board adopted the 2007 Decision on Bilateral Surveillance, replacing the 30-year-old 1977 Decision on Surveillance over Exchange Rate Policies. The 2007 Decision provides a modern legal underpinning and strengthened procedures for bilateral surveillance.



The Decision improves the Fund's ability to identify domestic macroeconomic and exchange rate policies that have negative spillover effects. It also reinforces the principle that surveillance should be applied to all members in an even-handed fashion. Candour in assessments and cooperative dialogue with member countries are central to the 2007 Decision.

In August, due largely to Canadian efforts, the Executive Board agreed to a triennial Statement of Surveillance Priorities (SSP) exercise. The SSP provides a mechanism by which IMF Governors can set out IMF surveillance priorities for the coming three years, and evaluate progress in implementing these priorities. The first SSP will be developed in 2008 in conjunction with the 2008 Triennial Surveillance Review, which is a regular stock-taking exercise regarding IMF surveillance operations.

Canada pushed for this innovation to ensure the IMF is more strategic when setting priorities for surveillance. In addition, we envisage a stronger role for IMF members in the priority-setting exercise to ensure that the IMF has the political backing to make clear assessments of member policies in key areas causing spillovers in the international economy. Finally, a statement of priorities promotes greater accountability by the IMF for the quality, focus and even-handedness of its surveillance.

Canada is pleased with the progress made so far on IMF surveillance reforms. The challenge going forward will be the rigorous implementation of the 2007 Decision guidelines for IMF bilateral surveillance (Article IV reviews) and the development of the SSP and its use over time as a way to ensure that the right issues are the focus of future IMF surveillance reviews.

IMF Lending Reforms

Despite a recent sharp downward trend in new lending, this remains an important activity for the IMF. Canada believes that IMF lending facilities remain an important element of the international financial architecture and the debate on crisis prevention and resolution. While not an urgent area for reform, Canada has been engaged in policy debates concerning the IMF's lending facilities and activities.

The 2006 report indicated that Canada would continue to support reforms to Fund lending facilities that promote effective crisis prevention and resolution—contributing to a more stable world economy. In Canada's view, it is also important that the Fund provide lending facilities that effectively respond to the differing financing needs and abilities of its members, but which safeguard member's resources in the IMF.

IMF efforts under the Medium-Term Strategy in 2006 and early 2007 included preliminary design work on a new high-access precautionary lending instrument for emerging market economies that continue to have access to international capital markets. This new facility was considered to be an important part of the package of reforms. However, in recent years, the potential clientele for such an instrument has experienced strong economic growth and foreign reserves accumulation (thus buttressing their ability to withstand a possible loss of market confidence or external shocks). Therefore, there is little demand for a new IMF precautionary facility at this time.

One such instrument, the Contingent Credit Line (CCL), was introduced on a trial basis in 1999, but it went unused owing to design challenges that were not fully resolved and subsequently expired. In this respect, we noted in the 2006 report the challenges inherent in designing a high-access precautionary facility that provides reliable and quick access to Fund resources, while ensuring that those resources have adequate safeguards for repayment. In addition, we noted the importance of ensuring correct market signals when members utilize or cancel these lending instruments.



Nonetheless, in Canada's view, recent IMF proposals for a Reserve Augmentation Line—a successor facility to the CCL—could, if properly designed, fill a potential gap in the range of instruments available to IMF members that do not have full access to private capital markets.

The policy debate on Fund lending instruments has, at least temporarily, been overtaken by an increased focus on quota and voice reforms and a stronger surveillance framework. However, we expect IMF discussions on improving lending instruments to gain momentum in the medium term. IMF lending reform may become a more prominent priority for Canada in future reports.

Renewed Efforts to Fix the IMF's Finances

In FY2007, the IMF incurred a deficit in its administrative budget—the first deficit in over two decades. This deficit is projected to significantly increase in coming years unless corrective action is taken. The deficit is an indirect result of welcome global economic trends, including more stable growth in developing countries and enhanced access to international financial markets for emerging economies. Those trends have contributed to a substantial decline in developing countries' demand for IMF lending and therefore a decline in interest income for the IMF, which is at present the IMF's main source of revenue. There is now broad agreement among IMF member countries that the Fund's finances should be put on a sustainable basis through a two-pronged approach: cutting expenses and developing new income sources.

Canada has long pushed for an IMF that is focused on its core mission and on improving the efficiency of its operations. We have a strong record of calling for IMF budget restraint at the Executive Board and in our Governor's statements to the IMFC. Consistent with this approach, Canada has been at the forefront of recent efforts to align the Fund's expenditure framework with its core mandate and comparative advantages.

Significant progress has been made in recent discussions of IMF expenditure reduction. Managing Director Dominique Strauss-Kahn has recognized that the expenditure review exercise represents an opportunity for the IMF to refocus its activities on its comparative advantages, retaining or even strengthening core functions, including surveillance. An eventual package of reforms could include efficiency-enhancing measures, reductions in some activities and reallocations among other activities. The package will also include a substantial reduction in Fund staff and overall spending that is unprecedented in the institution's history.

The Executive Director representing Canada, Ireland and the Caribbean is a member of the IMF Executive Board's Committee of the Budget. Accordingly, Canada has had a concrete and influential role in budget-cutting discussions since late 2007 and will continue this role in 2008. The Minister of Finance has also recently encouraged the Executive Director representing Canada to continue to show leadership in Executive Board efforts to reduce their own budgets on a comparative magnitude with Fund-wide cuts.

There has also been notable progress on efforts to reform the IMF's income model. In January 2007, at the request of the IMF Managing Director, a committee of eminent persons chaired by Sir Andrew Crockett reported on its deliberations over potential new income sources for the IMF. The report recommended the diversification of income sources to improve the stability and predictability of IMF income. The report also suggested ways for the IMF to increase the rate of return on its invested assets and expand the IMF's pool of invested assets, including through the sale of a limited portion of the IMF's gold holdings, which are the third largest in the world.



The 2006 *Report on Operations Under the Bretton Woods and Related Agreements Act* indicated that Canada would assess the recommendations of the Crockett report in 2007. The main income-generating proposals and Canada's assessment of those recommendations are contained in the text box below.

Beyond demonstrating leadership in budget-cutting efforts, the Managing Director has challenged the membership to reach agreement in 2008 on a number of income-enhancing measures recommended in the Crockett report. Canada is convinced of the need for broad agreement on a package of significant income reforms. While we are encouraged by the progress at the IMF on both the income and expenditure sides, further concerted efforts will be required to resolve the budget deficit situation in the ambitious time frame proposed by the Managing Director.

Key Crockett Report Recommendations and Canadian Views

- **Sell a strictly limited amount of IMF gold** (403 tonnes) and place the capital gains portion of the proceeds in an endowment. This would convert a non-income-earning asset (gold) into income-earning assets (bonds, etc).

Canada supports this recommendation provided the gold sale is managed in such a way that it does not disrupt world gold markets.

- **Liberalize the IMF's relatively stringent investment policy**, aligning it with the investment policies of other international financial institutions with AAA credit ratings. This could enable the IMF to earn a greater rate of return on its invested assets in the long run. At present, the IMF's pool of income-earning assets consists of approximately US\$9 billion in accumulated reserves.

Canada supports this recommendation, provided the new policy is prudent and does not create any potential conflicts of interest between the IMF's role in assessing economic developments and providing advice to members on the one hand and any expanded role as an investor in market securities on the other hand.

- **Invest a portion of member countries' quota subscriptions.** Traditionally, quota resources are used by the IMF only for program lending to members. Under the proposal, however, member countries would provide the IMF the right to invest some of their quota resources. The IMF would then retain the difference between the rate of return on the investment and the rate of remuneration paid to creditor countries.

Canada is open to considering this recommendation should it be demonstrated that it is required to fill the budget gap following implementation of the other income options and a significant reduction in budget expenditures.

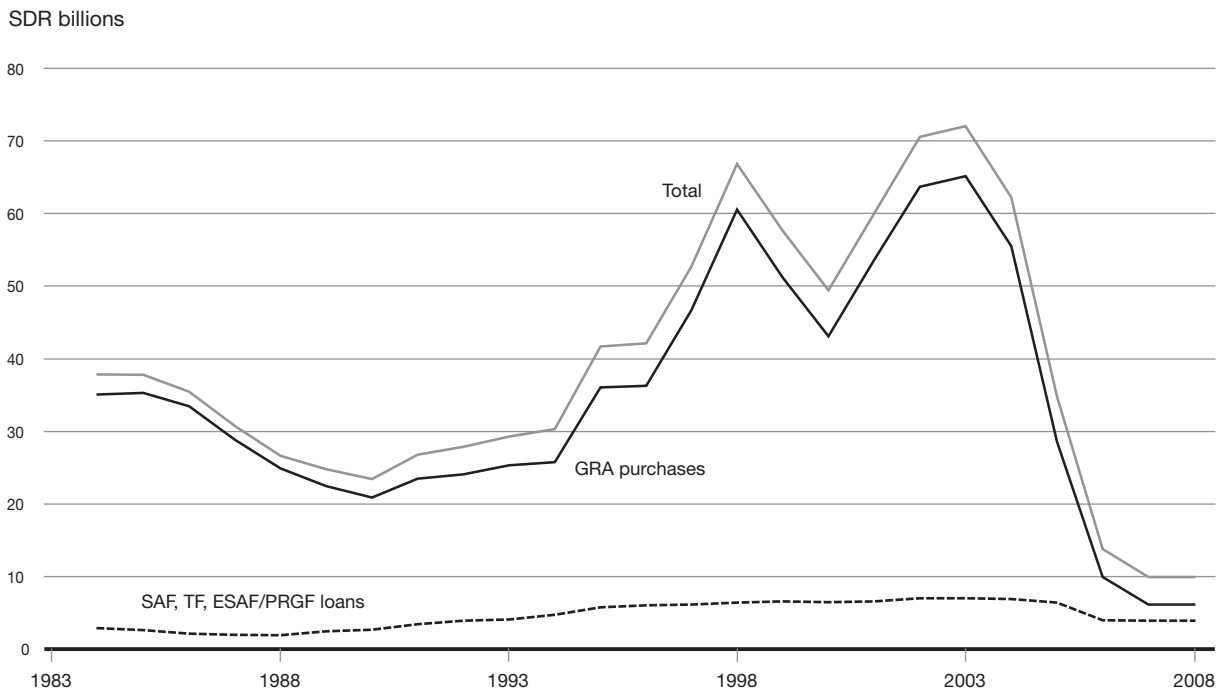
Other Developments in 2007

Update on Lending Activity

A relatively benign global economic and financial environment has been the main driver behind a reduction in demand for borrowing from the IMF in recent years. Fewer countries require IMF assistance in responding to balance of payments or other economic difficulties. In recent years, many countries that had borrowed during previous periods of difficulty have been able to repay the IMF ahead of schedule, as is reflected in Chart 1.



Chart 1
IMF Credit Outstanding for All Members



Notes: GRA = General Resources Account; SAF = Structural Adjustment Facility; TF = Transfer Fund; ESAF = Enhanced Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility.
Source: www.imf.org/external/fin.htm.

Reasons for falling IMF lending activity in FY2007 include:

- During FY2007, nine members—Bulgaria, the Central African Republic, Ecuador, Haiti, Indonesia, Malawi, the Philippines, Serbia and Uruguay—repaid their outstanding obligations to the IMF ahead of schedule.
- IMF disbursements have also been relatively low in recent years, totalling SDR 2.3 billion in FY2007, with the majority being drawn by Turkey.
- New IMF general lending commitments fell sharply, from SDR 8.3 billion in FY2006 to SDR 237 million in FY2007.

The total resources that the IMF has available to assist its members are determined by the size of members' quotas. IMF liquidity, the amount of these resources that are undrawn and thus available to finance future lending to members, rises or falls depending on how much of the Fund's total resources are already lent to members. IMF credit to members is very low at present, reflecting the generally favourable economic situation prevailing in most emerging markets (the IMF's traditional borrowers). For these reasons, IMF liquidity rose to a record SDR 127.3 billion as of October 2007.



In terms of concessional lending, the Executive Board approved 10 new PRGF arrangements during FY2007 totalling SDR 401 million. New PRGF arrangements were approved for Afghanistan, Burkina Faso, the Central African Republic, Gambia, Haiti, Madagascar, Mauritania, Moldova, Rwanda and Sierra Leone.

Debt relief is linked to the effectiveness of IMF concessional lending. Total disbursements of Heavily Indebted Poor Countries (HIPC) Initiative assistance by the IMF amounted to SDR 1.7 billion at the end of FY2007, and the IMF delivered Multilateral Debt Relief Initiative debt relief totalling SDR 2.7 billion to 24 qualifying countries. Haiti reached its decision point in FY2007, Malawi, Sierra Leone and São Tomé and Príncipe reached their completion points, and Afghanistan was added to the list of countries eligible for assistance under the HIPC Initiative.

HIPC Decision and Completion Points

A country is said to have reached its HIPC decision point after establishing a track record of good performance and developing a Poverty Reduction Strategy Paper (PRSP) or an interim PRSP, at which time the IMF and World Bank formally decide on the country's eligibility and the international community commits itself to reducing the country's debt to a sustainable level. A country reaches its completion point once it has met the objectives set at the decision point; it then receives the balance of debt relief committed.

A New Managing Director and a Revised Selection Process

In the past, the selection process for the position of IMF Managing Director was marked by a distinct lack of transparency and perceived fairness. Canada has long argued for an open and transparent process whereby any country member could nominate a candidate for the position, and those nominees would have equal opportunity to represent their candidacy. In this arrangement, a majority vote or consensus decision by the Executive Boards would decide the successful candidate, with their decision based entirely on merit. Equally importantly, the process would be guided by publicly available rules and procedures.

The unexpected departure of the former Managing Director, Rodrigo de Rato, in 2007 presented Canada with an opportunity to push for reform of the selection process. The process that was ultimately followed by the IMF Executive Board fulfilled the objectives outlined above. The Executive Board publicly issued broad guidelines and a timetable for the selection process and established a clear nomination period. Two nominees came forward for the Managing Director post. Both nominees had direct and equal contact with the Executive Board members, delivering statements and responding to questions. Canada embraced the new process. The Minister of Finance interviewed both candidates by phone and assessed their merit. He also conveyed his recommendation to the Executive Director representing Canada, Ireland and the Caribbean.

In November 2007, Canada welcomed the appointment of Mr. Dominique Strauss-Kahn, former French Minister of the Economy, Finance and Industry and Professor of Economics at the Institut d'Études Politiques de Paris, as the 10th Managing Director of the IMF.



IEO Evaluations

The Independent Evaluation Office (IEO) is an important part of the IMF. It was set up following calls from Canada and like-minded members for a body that could conduct in-depth, independent and candid evaluations of IMF policies and activities. It is fully independent of management and operates at arm's length from the Executive Board.

The IEO completed three evaluation reports in 2007 addressing topics vital to the work of the organization: aid to Sub-Saharan Africa, exchange rate policy advice and structural conditionality. While these evaluations are retrospective, they provide insightful analysis and present well-considered recommendations for improving the work of the IMF.

In March 2007, the IEO released *The IMF and Aid to Sub-Saharan Africa*.⁸ The report examines the role of the IMF in the determination and use of aid to low-income countries in Sub-Saharan Africa from 1999 to 2005. The key findings of the evaluation include:

- PRGF-supported macroeconomic policies generally accommodated the effective use of incremental aid.
- PRGFs failed to set ambitious aid targets and identify additional aid opportunities.
- Fiscal governance elements were treated more systematically in IMF-supported programs than other objectives, such as social impact analysis.
- Better IMF communications efforts are needed to reduce misinformation and missed opportunities.

The report recommends that:

- The Executive Board reaffirm and/or clarify IMF policies to improve the coherence of IMF policies and actions.
- IMF management establish transparent mechanisms for monitoring and evaluating the implementation of clarified policy guidance.
- IMF management clarify expectations and resource availability for resident representatives' and missions chiefs' interactions with local donor groups and civil society.

Canada supports the IEO's recommendation that greater clarity and consistency are needed around IMF policies. In particular, better communication and transparency are needed between the IMF, donors and civil society to foster a clear understanding of why authorities may not be spending all available aid. IMF staff should work to better inform donors and beneficiary governments of the issues surrounding aid absorption capacity and aid opportunities.

In May 2007, the IEO released *IMF Exchange Rate Policy Advice*.⁹ The report finds that the IMF has experienced difficulties in fulfilling its responsibilities for exchange rate surveillance, including:

- A lack of clear operational guidance for IMF staff.
- A culture of excessive deference to the views of authorities in the country undergoing surveillance.

⁸ See: www.ieso-imf.org/eval/complete/eval_03122007.html.

⁹ See: www.ieso-imf.org/eval/complete/eval_05172007.html.



- Insufficient attention to the implications of country policies for the stability of the international monetary system.
- Shortcomings in engagement and trust with developing countries.

The report's recommendations include:

- The establishment of more concrete guidelines for IMF staff to operationalize a clearer mandate regarding exchange rate policies.
- A call for improvements to the framework of IMF exchange rate analysis.
- An increase in IMF staff engagement with country authorities to encourage more candid surveillance.

Canada supports the report's findings regarding the need for reform of IMF surveillance as it applies to exchange rate regimes. In this respect, the 2007 Decision on Bilateral Surveillance and the Statement of Surveillance Priorities, currently under development, have the potential to address many of these shortcomings. Canada is continuing to work to strengthen IMF surveillance, including the full implementation of the 2007 Decision and Statement of Surveillance Priorities.

At the close of 2007, the IEO completed *An IEO Evaluation of Structural Conditionality in IMF-Supported Programs*.¹⁰ The report examines factors influencing the effectiveness of IMF structural conditionality in bringing about structural reform, and assesses the impact of the streamlining initiatives launched in 2000 and the 2002 Conditionality Guidelines.¹¹ The key findings of the evaluation include:

- The number of program conditions remains excessive (averaging 17 conditions per program year).
- Only about half of structural conditions were complied with on a timely basis.
- Strong ownership of the reform program by IMF staff and the member country is critical.
- Compliance and effectiveness of conditions are higher in core IMF competency areas, such as public expenditure management and tax issues.
- There is a lack of clarity on what conditions are critical to program success and a need for roadmaps that outline program objectives.

The report's recommendations include that:

- The Executive Board clarify expectations for the number and focus of structural conditions.
- IMF staff work with member countries to clearly identify the main goals of each program and set structural conditions that significantly contribute to these goals.
- The IMF work with the World Bank to help member countries diagnose constraints and prepare strategies for reform.
- Information regarding monitoring, evaluation and conditionality be more clearly articulated by IMF management to staff, member countries and outside organizations.

¹⁰ See: www.ieo-imf.org/eval/complete/eval_01032008.html.

¹¹ The streamlining initiatives aimed to reduce the volume and scope of structural conditionality, focusing on conditions that are critical to the achievement of the program goals over time.



Canada supports limiting the number and nature of structural conditions to those most critical to program success. It will work through the Executive Board to promote clearer IMF communication regarding conditionality and better Fund collaboration with the World Bank, particularly in low-income countries. The Government of Canada looks forward to the presentation of the IMF staff's implementation plan in early 2008 as a concrete measure to act on lessons learned in this exercise.

Canada's Voting Record in 2007

Since the vast majority of decisions at the IMF are taken on a consensus basis, formal votes by Governors and the Executive Board are rare. Canada attempts to influence the development of policy proposals before they are brought to the Board (through informal discussion with staff and management) or to influence other members of the Executive Board before or during the course of Board deliberations. Below is Canada's position on the two resolutions taken by the Board of Governors in 2007. As well, the Executive Director representing Canada, Ireland and the Caribbean recorded one abstention in 2007.

Voting Record of the Canadian Governor in 2007

- In January 2007, Canada's Governor approved the Republic of Montenegro's request for membership at the International Monetary Fund.
- In August 2007, Canada's Governor supported an increase in the salaries for the Executive Directors at the IMF to reflect the increase in the cost of living in Washington, DC.

Voting Record of the Executive Directors Representing Canada in 2007 (only oppositions or abstentions listed)

- In June 2007, Canada's Executive Director at the IMF abstained on the vote to approve the completion of the third review of Nigeria's Policy Support Instrument due to slippages in macroeconomic and structural policy implementation.

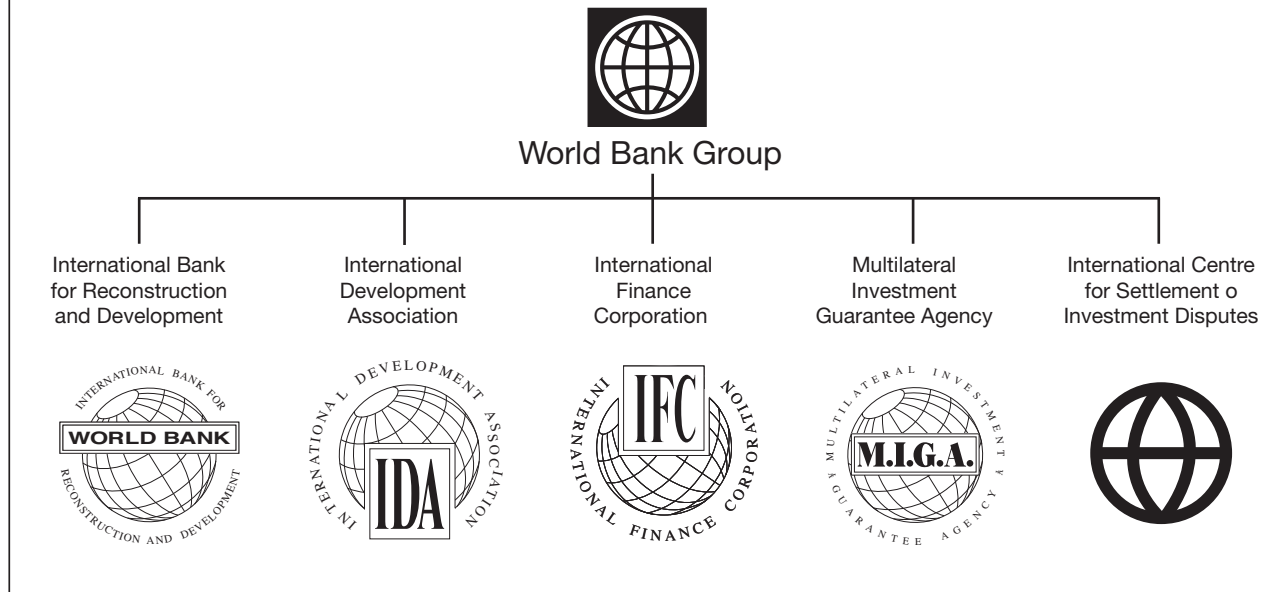


An Introduction to the World Bank

The World Bank Group is made up of five complementary but distinct entities: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a unique but complementary role in promoting global poverty reduction.

Figure 2

Five Agencies—One Group



The overarching mission of the World Bank is to reduce global poverty, focusing on the achievement of the Millennium Development Goals (MDGs). These MDGs set concrete targets for the elimination of poverty and sustained development and provide the Bank and other donors with common targets and yardsticks for measuring results. The Bank concentrates on fostering a climate conducive for investment, job creation and sustainable growth. It also seeks to empower the less fortunate, through the provision of health services, education and other social services, to enable them to participate in development.



The Millennium Development Goals

- End extreme poverty and hunger.
- Make sure all children receive a primary education.
- Promote equal rights for women and give them power to help themselves.
- Improve the health of pregnant women and mothers.
- Reduce child death rates.
- Tackle HIV/AIDS, malaria and other diseases.
- Protect the environment and natural resources.
- Develop an international partnership for development.

Together, the IBRD and IDA are often referred to as “the World Bank.” They focus on lending and contributing to development projects that help to reduce poverty. Funding from the IBRD and IDA go to sectors such as education, health, infrastructure, environment and agriculture. The IFC and MIGA support private sector investment in developing countries.

World Bank Group Agencies¹²

IBRD—International Bank for Reconstruction and Development

IBRD at a Glance

- Established: 1945
- Members: 185
- Mission: Broad poverty reduction
- Clients: Middle-income and creditworthy low-income countries
- Tools: Loans, guarantees, analytical and advisory services
- Size: US\$12.8 billion in new commitments, 2007

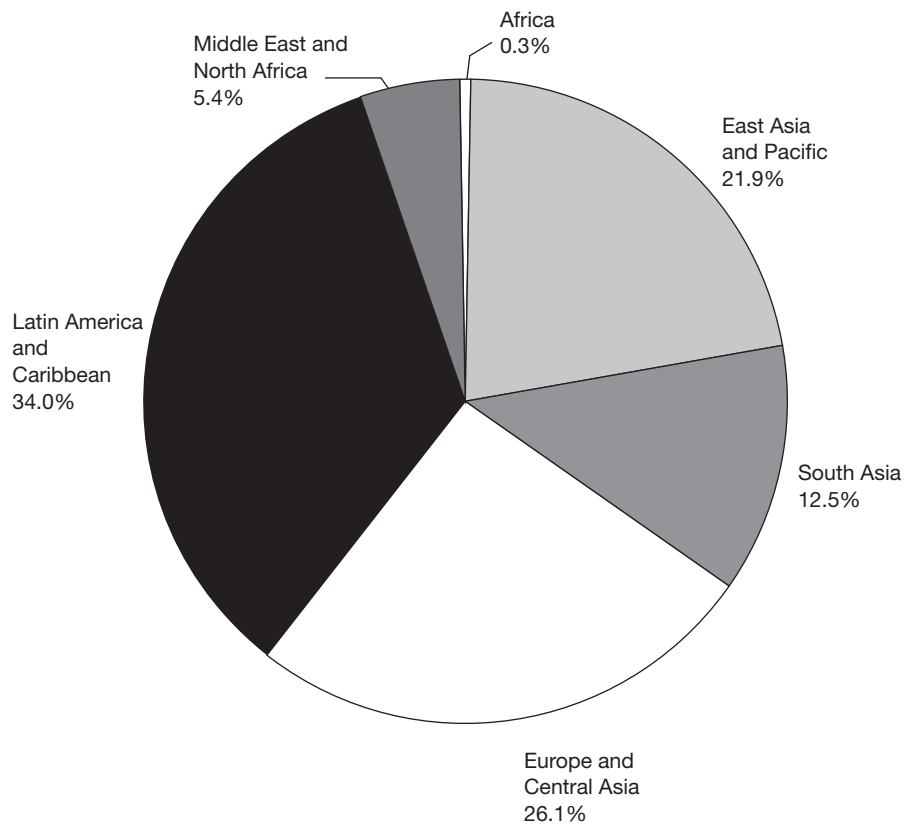
Established in 1944, the IBRD is the original institution of the World Bank Group and its main lending agency, providing loans to middle-income and creditworthy low-income countries with per capita incomes of less than US\$17 per day.

The IBRD raises most of its funds in the world’s financial markets by selling AAA-rated World Bank bonds. It lends these funds to its client countries at a rate of interest that is much lower than the rate they could secure on their own. The IBRD is able to borrow at attractive rates because it is backed by capital commitments from its member countries.

¹² All figures and activities in this section are for the World Bank’s 2007 fiscal year (July 1, 2006 to June 30, 2007)



Chart 2
Total IBRD Lending By Region, 2007



The IBRD does not seek to maximize profit; rather, it aims to earn enough to ensure its financial strength and to sustain its development activities. In 2007, the IBRD raised US\$11 billion on world capital markets and committed US\$12.8 billion to 112 projects in developing countries.

Latin America and the Caribbean receive the largest portion of IBRD funding (34 per cent in 2007), followed by Europe and Central Asia. IBRD lending for infrastructure has been on the rise in recent years, accounting for approximately 55 per cent of total lending in 2007. Lending for government and economic management, health and education also remained a focus.



IDA—International Development Association

IDA at a Glance

- Established: 1960
- Members: 166
- Mission: Broad poverty reduction
- Clients: Poorest countries
- Tools: Interest-free loans, grants, analytical and advisory services
- Size: US\$11.9 billion in new commitments, 2007

In the 1950s, it became clear that the poorest developing countries could not afford to borrow needed capital on the terms offered by the IBRD. In response, IDA was set up to lend to very poor countries at zero interest. IDA lending now accounts for approximately one-third of World Bank Group financing and is focused on countries with annual per capita income of less than US\$3 per day. IDA offers 35- and 40-year interest-free loans and grants and represents the largest source of development financing for these countries.

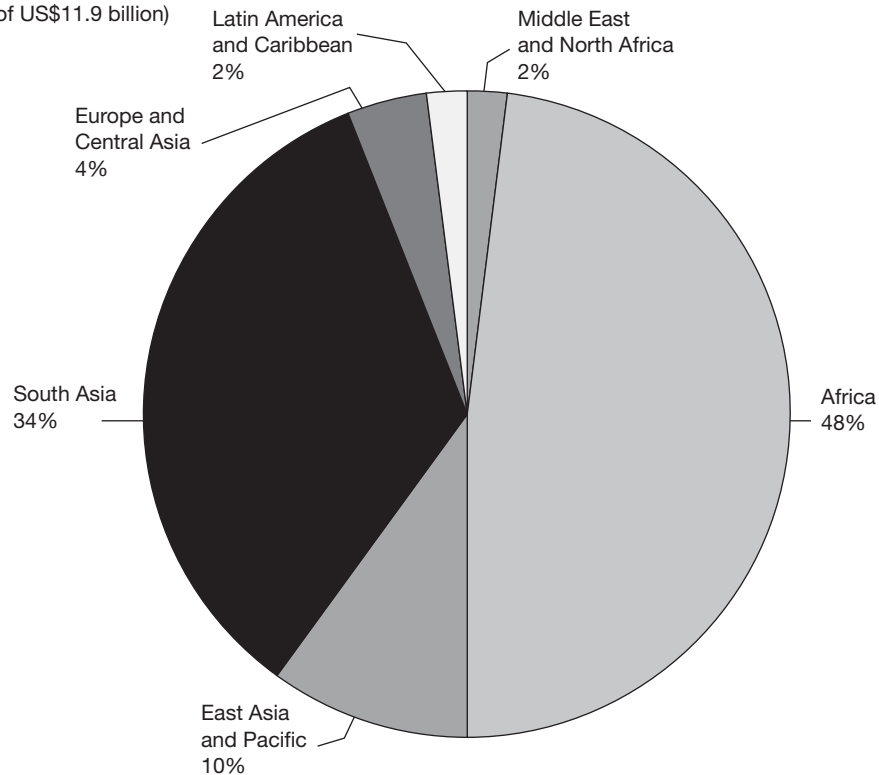
New IDA commitments are financed through donor contributions, annual transfers from IBRD and IFC net income, and IDA's own internal resources (i.e. principal repayment on past loans). Donor contributions make up the largest component of IDA's finances, and a replenishment is held every three years to mobilize new donor pledges for the coming period.

2007 was a record year for IDA commitments, with US\$11.9 billion committed to 189 projects. This volume of IDA commitments was 25 per cent higher in dollar terms than in 2006. The largest share of IDA resources were committed to Africa, which received a record \$5.8 billion, or 48 per cent of total IDA commitments. South Asia also received a large share of total funding, with US\$4 billion in new commitments. Nigeria (US\$1.6 billion) and Pakistan (US\$0.9 billion) were the largest single recipients of IDA funding. Sectorally, infrastructure, health, education and agriculture were major focuses for IDA financing.



Chart 3
Total IDA Lending by Region, 2007

(per cent share of US\$11.9 billion)



Supporting Developing Countries' Priorities

Development programs are most successful when the country has a true sense of ownership and is deeply involved in their design and execution.

Over the last decade, the World Bank has made progress in focusing its lending on borrower countries' development priorities. IDA borrowers begin by setting out their vision for their country's development in a Poverty Reduction Strategy Paper (PRSP). These documents describe the policies and programs they would put in place to promote growth and reduce poverty, as well as associated external financing needs, and are prepared through a participatory process involving civil society and development partners. As of August 2007, 54 low-income countries had prepared PRSPs.

Using the PRSP as its starting point, the World Bank works with the country and other stakeholders to prepare a Country Assistance Strategy (CAS). The CAS identifies the key areas where the Bank Group's assistance can have the biggest impact on poverty reduction and sets out a selective program of Bank Group support, including the level and composition of financial, advisory and/or technical support.

Canada is very supportive of the efforts the Bank has made to advance the country-led development model and we encourage it to continue helping client countries build the institutional capacity to properly define and implement national strategies and to promote truly participatory processes for the development of the PRSP, involving all interested stakeholders.



IFC—International Finance Corporation

IFC at a Glance

- Established: 1956
- Members: 179
- Mission: Promote private sector investment
- Clients: Businesses in developing countries where there is limited access to capital
- Tools: Commercial-rate loans, equity investments, resource mobilization, advisory services
- Size: US\$8.2 billion in new commitments, 2007

The IFC works with the private sector in developing countries to reduce poverty and encourage sustainable economic growth. It provides financing for private sector projects, assists in mobilizing financing in international financial markets, and provides advice and technical assistance to businesses and governments. The IFC is now the largest multilateral source of loan and equity financing for private sector projects in the developing world. The IFC's mandate stipulates that it provide financing only where sufficient private capital cannot be obtained from other sources on reasonable terms.

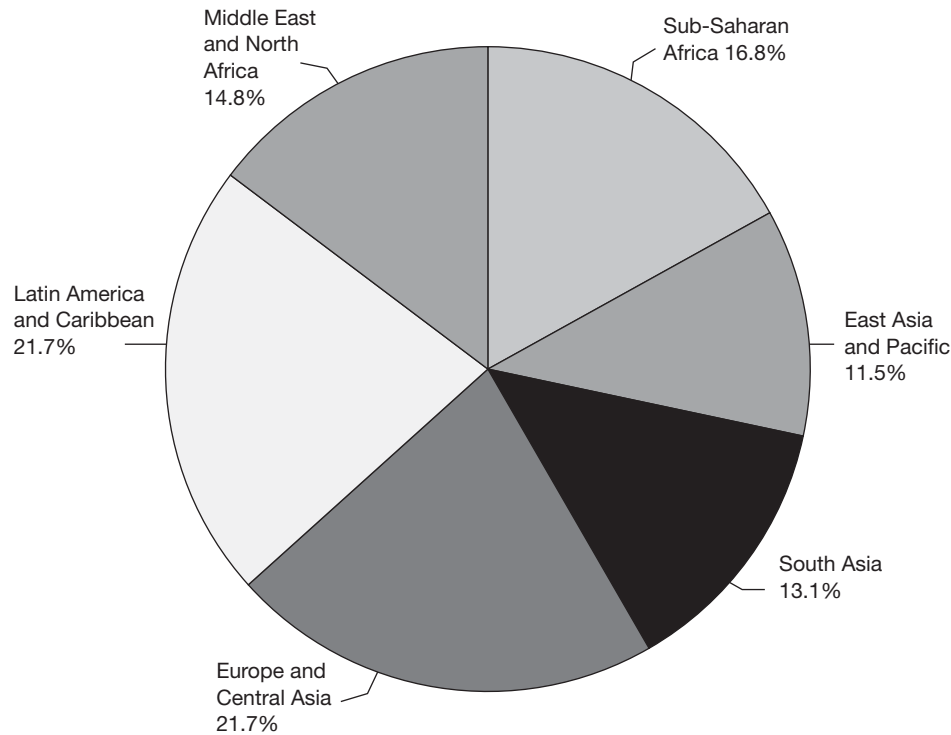
The IFC collaborates and coordinates with the IBRD, IDA, MIGA and other organizations, though it is legally and financially autonomous, with its own share capital, management and staff.

In 2007, the IFC's portfolio grew 17 per cent to US\$25.4 billion from US\$21.6 billion the previous year. New commitments in Sub-Saharan Africa nearly doubled to US\$1.4 billion. New commitments in South Asia increased 112 per cent to US\$1 billion, and growth in the Middle East and North Africa was up 82 per cent, to US\$1.2 billion.

New commitments for frontier markets (i.e. IDA-eligible countries and other high-risk markets) hit an all-time high, with growth of US\$2 billion during the fiscal year, and represented approximately 31 per cent of total new commitments. Growth was especially strong in Sub-Saharan Africa, with new commitments in reaching US\$538 million, notably in Nigeria (US\$147 million), Uganda (US\$156 million) and the Democratic Republic of Congo (US\$75 million).



Chart 4
Total IFC Lending by Region, 2007



MIGA—Multilateral Investment Guarantee Agency

MIGA at a Glance

- Established: 1988
- Members: 171
- Mission: Promote foreign direct investment in developing countries
- Clients: Investors and lenders
- Tools: Political risk insurance, advisory and legal services
- Size: US\$1.9 billion in risk guarantees, 2007

MIGA encourages foreign investment in developing countries by providing guarantees to foreign investors against loss caused by non-commercial risks. MIGA also provides technical support to help developing countries promote investment opportunities and uses its legal services to reduce possible barriers to investment.

In 2007, the total amount of guarantees issued for projects in MIGA's developing member countries reached US\$1.9 billion. This represents the third consecutive year of steady growth in guarantees issued by the agency.



Of the new guarantees issued, US\$387 million went to projects in IDA-eligible countries and US\$ 302 million went to projects in conflict-affected countries. Overall, Africa accounts for 18 per cent of MIGA's outstanding portfolio at US\$964 million in gross exposure.

ICSID—International Centre for Settlement of Investment Disputes

ICSID at a Glance

- Established: 1966
- Members: 144
- Mission: Investment dispute resolution mechanism

ICSID provides a conciliation and arbitration mechanism for investment disputes between member countries and private investors. Canada is not currently a member of ICSID as it requires both federal and provincial implementing legislation. Both the federal government and all of the provinces have indicated a willingness to introduce legislation for Canadian membership, and in 2006 Canada signed a convention with the intention of ratification in the near future. ICSID membership would provide Canadian investors with an additional mechanism for the resolution of investment disputes pursued under international arbitration.

The World Bank Group's Internal Checks and Balances

The World Bank Group has in place several bodies to ensure that its activities are achieving results, are carried out with integrity, and are working for the benefit of the vulnerable and disadvantaged in developing countries.

The Independent Evaluation Group (IEG)

The IEG is an independent unit within the World Bank Group reporting directly to the Bank's Executive Board. The IEG assesses the development impact of IBRD, IDA, IFC and MIGA programs. The IEG's goals are to provide an objective assessment of their work, provide accountability in the achievement of the Bank's objectives and ensure that the Bank learns from its experiences. In 2007, the IEG conducted 27 evaluations of individual Bank projects, 4 country-level evaluations, 5 sector evaluations, and 9 corporate reviews. These reports are available online at: www.worldbank.org/ieg.

Quality Assurance Group (QAG)

QAG's primary objective is to promote increased internal accountability at the Bank by providing staff with credible, timely feedback on operational performance and identifying systemic issues affecting operational performance. It highlights the skills and resources needed to ensure high-quality work and uses lessons learned to support staff training. In 2007, QAG released an assessment of the supervision of Bank projects. An assessment of project design and preparation (i.e. "quality at entry") is expected in early 2008. These are available online at:

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/QAG/0,,contentMDK:20067126~menuPK:114865~pagePK:109617~piPK:109636~theSitePK:109609,00.html>.



Compliance Advisor Ombudsman (CAO)

The Office of the CAO is committed to enhancing the development impact and sustainability of IFC and MIGA projects by responding quickly and effectively to complaints from affected communities. It also supports the IFC and MIGA in improving the social and environmental outcomes of their work and fostering a high level of accountability. The CAO has received 64 complaints since 2000, including 8 in 2007. Ten of these cases were closed in 2007. CAO's Annual Report can be accessed at: www.cao-ombudsman.org/html-english/documents/CAO_AR0607_Engforweb.pdf

The Inspection Panel

The primary purpose of the Inspection Panel is to address the concerns of people who may be affected by IBRD and IDA projects and to ensure that the Bank adheres to its operational policies and procedures during the design, preparation and implementation phases of projects. The Panel is appointed by and reports directly to the Executive Board. In 2007, the Panel completed two investigations and received six new requests for inspection. The Panel's Annual Report can be accessed at: http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/InspP_2007_Annual_Report.pdf

Department of Institutional Integrity (INT)

INT investigates allegations of fraud and corruption in Bank Group operations as well as allegations of staff misconduct, and reports its findings directly to the President. INT also assists in preventative efforts to protect Bank Group funds and ensure they are used for intended purposes. In 2007, INT closed 149 cases of suspected misconduct by external partners, which have so far led to the debarment of 3 firms from participation in Bank-related projects. INT also closed 152 cases of suspected misconduct by Bank staff, which led to the termination of 22 staff and disciplinary action for 22 others. INT's Annual Report can be accessed at: <http://siteresources.worldbank.org/INTDOI/Resources/fy07report-execsum.pdf>

Volcker Panel Review of INT

In 2007, an independent review panel, chaired by former Chairman of the Federal Reserve Bank, Paul Volcker, was formed to review the work of the Department of Institutional Integrity (INT) and to strengthen and clarify INT's role in relation to the Bank's broader Governance and Anti-Corruption strategy.

The Panel's recommendations included the creation of an independent advisory board comprising international anti-corruption experts to protect INT's independence and strengthen its accountability, as well as the creation of a preventative services consulting unit to help Bank staff guard against fraud and corruption in Bank projects. The Panel also recommended raising the rank of the head of the department to Vice President. Canada supports the full implementation of the Volcker Panel recommendations. An empowered and effective INT is essential to safeguard against misconduct by external partners and Bank staff.



Canada and the World Bank

This section describes how Canada participates at the World Bank, highlighting the opportunities for Canada to influence Bank policy.

The World Bank is governed by 185 member countries. Each owns shares of World Bank stock and thus holds decision-making power. Every World Bank member state appoints a Governor to represent them on the Board of Governors, the highest authority governing the Bank. Canada's Governor is the Minister of Finance.

The Governors are responsible for core institutional decisions, such as admitting or suspending members, increasing or decreasing the Bank's authorized capital stock, determining the distribution of net income, and reviewing financial statements and budgets.

They delegate responsibility for the day-to-day running of the organization to 24 full-time Executive Directors, located at the Bank's headquarters in Washington, DC. Executive Directors are appointed for terms of two years. In September 2006, Mr. Samy Watson was elected to represent the constituency which includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. Governments within the constituency provide advice to the Executive Director on issues discussed at the Executive Board. The Executive Director considers this advice in forming his positions and applies his own judgement as an officer of the World Bank.

The Executive Board usually makes decisions by consensus. In the event of a formal vote, however, the relative voting power of individual Executive Directors is based on the shares held by the constituencies they represent.

Voting power at the Bank is mainly a function of the shareholdings held by a country, which in effect means that voting power reflects the relative economic strength of individual members. A small share of a member's voting power is also determined by basic votes, which are distributed equally among all members.

Table 6

Voting Shares of the 12 Largest Members at the World Bank (IBRD)

Country	% of Total Voting Shares
United States	16.38
Japan	7.86
Germany	4.49
United Kingdom	4.30
France	4.30
China ¹	2.78
Canada	2.78
Italy	2.78
India	2.78
Russia	2.78
Saudi Arabia	2.78
Netherlands	2.21

¹ China has slightly more votes than Canada, Italy, India, Russia and Saudi Arabia.



Canada is the seventh largest shareholder at the Bank, having contributed a total of US\$5.5 billion in capital subscriptions to the IBRD, IFC and MIGA and US\$7.8 billion in donor contributions to IDA. Our voting power ranges from 2.51 per cent to 3.39 per cent within the Bank's different institutions.

Table 7

Canada's Capital Subscriptions, Contributions and Voting Power as of June 30, 2007

(US\$ millions, unless otherwise indicated)

	IBRD	IDA	IFC	MIGA
Capital subscription	5,403.8	–	81.3	56.5
Amount paid in	334.9	7,834.8 ¹	81.3	10.7
Amount callable	5,068.9	–	–	45.8
Subscription share (%)	2.85	4.68	3.44	3.00
Voting power (%)	2.78	2.77	3.39	2.51

Note: Figures from the 2007 Annual Report for the World Bank, IFC and MIGA respectively for 2007.

¹ IDA figure represents Canada's cumulative contributions.

Members of the Executive Director's Office at the World Bank

Executive Director	Samy Watson (Canada)
Alternate Executive Director	Ishmael Lightbourne (the Bahamas)
Senior Advisor	Terry Winsor (Canada)
Senior Advisor	François Pagé (Canada)
Senior Advisor	Brendan Ryan (Ireland)
Senior Advisor	Cal MacWilliam (Canada)
Advisor	Sharmila Prakash Khare (Canada)
Advisor	Carl Oliver (the Bahamas)
Executive Assistant	Monique Piette
Program Assistant	Monica Morris
Phone/fax	202-458-0082/202-477-4155
Address	MC-12-175, 1818 H Street N.W. Washington, DC 20433, USA



IDA Replenishments

Every three years IDA funds are replenished through donor contributions. The replenishment provides another opportunity for Canada to influence policy, as during this process IDA and its donors discuss policy directions for the upcoming period. Governors from each donor country appoint an IDA Deputy to represent them at these discussions, which conclude with a round of donor pledges for the replenishment of the association's finances. Canada's IDA Deputy is Mr. Peter Cameron, Director of the International Finance and Development Division of the Department of Finance.

The Benefits of World Bank Membership

Membership at the World Bank provides significant benefits to Canada, including:

- An important voice in the leading international institution for global poverty reduction and development.
- A vehicle to contribute to development in low-income and emerging countries beyond that which can be achieved through our bilateral programs.
- Participation in an institution that shares our priorities with respect to effectiveness and results; is a key partner for Canada in fragile states; and leads the international community's efforts on debt sustainability.
- An opportunity to partner with the Bank on its research and policy work, which enriches our own understanding of international development.
- Business opportunities for Canadian companies and individuals, through its transparent and fair procurement system.
- The opportunity for closer ties with the countries with which we share a constituency, including a better understanding of their global development priorities and the unique development context in the Caribbean.



Canada at the World Bank: What Happened in 2007

This section describes how Canada delivered on its priorities for 2007, as set out in the 2006 *Report on Operations Under the Bretton Woods and Related Agreements Act*. It also provides an overview of other major developments at the World Bank in 2007. For each major issue, it describes Canada's involvement and summarizes our views, as conveyed through advice to the Executive Director's Office as well as statements at the DC Meetings. The section ends with Canada's voting record at the World Bank for 2007 and information on our financial contributions over the year.

Canada's Priorities in 2007

The "Looking Ahead" section of the 2006 report described Canada's priorities at the World Bank for 2007. There were two priorities listed:

- To use the 2007 IDA replenishment as an opportunity to seek enhancements to World Bank support in three areas: fragile states, debt sustainability and results and effectiveness.
- Further action to end the "lend and forgive" cycle through debt sustainability, including arrears clearance for Liberia.

IDA holds a replenishment every three years to raise new donor financing for its operations. These discussions provide an opportunity for IDA, donors and borrower representatives to review IDA's policies and operations, and agree on changes or enhancements for the upcoming three-year period. Discussions regarding IDA's fifteenth replenishment (IDA15) began in March 2007 and concluded in December 2007.

Canada proposed that fragile states, debt sustainability, and results and effectiveness be chosen as themes for the IDA15 policy discussions. We were pleased that these priorities were shared and accepted by the other members. Participants also agreed to examine IDA's climate change adaptation and mitigation activities.

Altogether, Canada and the other IDA donors secured a number of important policy enhancements in these priority areas, as described below. The IDA15 agreement will be presented to Governors in 2008 for their final approval, and a full list of policy agreements will be released publicly by the summer of 2008. Papers produced for the discussions and meeting summaries are available on the World Bank's website.

Fragile States

Fragile states present a major development challenge, with 35 per cent of the world's poor concentrated in these countries—a share that is expected to grow in the future. Canada has made fragile states a focus for our own bilateral aid, with large programs in countries such as Afghanistan, Sudan and Haiti, and has been advocating for stronger multilateral support in this area as well.

In this regard, the Bank has significantly enhanced its engagement in fragile states over the last few years, including:

- New guidelines to help the Bank tailor its responses in fragile states and avoid a "one size fits all" approach.
- A new rapid response system.



- Staffing improvements in fragile states, including more field presence, better sharing of lessons learned, and specialized backup teams for emergencies.
- The creation of the Low-Income Countries Under Stress (LICUS) Trust Fund to provide a quick-response and flexible funding mechanism.
- A significant increase in IDA financing for fragile states provided in the form of non-repayable grants, rather than loans.

During the IDA15 discussions, IDA, donor countries and borrower representatives suggested further improvements. Canada pushed for an increase in the size and duration of IDA's special funding for post-conflict states and the timely completion of a framework for better coordination between the Bank and the United Nations. These suggestions were echoed by many of the other donors, as well as IDA staff, and both were agreed to, including a US\$1.5-billion increase to special financing for post-conflict states.

Canada also supported IDA's proposal for US\$1.4 billion in financing to clear the arrears of countries emerging from conflict. This arrears clearance will enable countries such as Côte d'Ivoire, Liberia and Sudan to benefit from IDA support once again.

Debt Sustainability

Canada has been very active in the development and financing of debt relief through the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative (MDRI), which free up resources for recipient countries to redirect to poverty reduction initiatives. Under these programs, Canada has cancelled roughly \$1 billion in debts owed to us by developing countries since 2000 and committed to provide the IMF, World Bank and African Development Bank with \$2.5 billion over the next 40 years to compensate them for the debts they have cancelled.

Given these efforts, it is critical that the international community prevent a return to the “lend-and-forgive” cycles of the past by helping recipient countries implement sustainable, long-term financial management. The World Bank has played a significant role on this issue through the development of:

- The Debt Sustainability Framework, with the IMF to better monitor and prevent the reaccumulation of unsustainable debt.
- The Debtor Reporting System to collect debt data to improve the transparency of lending and borrowing activities.
- A grant allocation system for IDA under which countries with higher debt risk ratings receive financing in the form of grants, rather than loans.
- A Non-Concessional Borrowing Policy (NCBP) to create proper incentives for IDA-eligible countries to borrow on concessional terms and ensure that debt sustainability is maintained.
- Tools and technical assistance to help borrowers strengthen their debt management.

During the IDA15 discussions, Canada encouraged the Bank to further strengthen its tools to assess and encourage debt sustainability. Canada and other donors urged the Bank to strengthen their work to build debt management capacity in recipient countries. IDA agreed to develop a medium-term debt management strategy tool to assess a country's capacity to maintain debt at sustainable levels and enhance advisory services for IDA clients. IDA also agreed to conduct regular debt sustainability assessments for all of its clients and publish its analyses on its website to help increase the transparency of borrowing decisions.



Canada also suggested that the Bank expand the scope of the NCBP to consider not just the rate of accumulation of non-concessional debt, but also the rate of accumulation of concessional debt (i.e. low or no interest loans provided by donors and organizations like IDA), when assessing IDA clients' debt situations. While this was not agreed to by all participants for the IDA15 period, IDA did agree to provide regular updates on its experience with the NCBP, and Canada will continue to monitor its effectiveness and advocate for the Bank to recognize the role of concessional loans in debt sustainability.

Results and Effectiveness

Given the enormous needs of developing countries, donors and recipients should ensure that each dollar available for international assistance goes as far as it can in terms of development results. To this end, Canada made a commitment in its 2007 budget to improve the effectiveness of its own aid program and we have been pushing our multilateral partners to strengthen their focus on results and effectiveness as well.

The World Bank has been a leader in this area, with considerable progress in the last few years on two fronts:

- Results Measurement
 - IDA has implemented a Results Measurement System to measure overall development outcomes in IDA countries and IDA's particular contribution to those outcomes.
 - The Bank has introduced results-based CASs.
 - The Bank has provided significant financing and technical assistance to build client countries' ability to properly collect and report development statistics.
- Country-Level Effectiveness
 - Donor harmonization, to eliminate duplicative tasks and reduce the administrative burden on governments, is a core part of improving aid effectiveness and IDA has performed comparatively well in this area.
 - While IDA remains the lead donor for many of the projects and programs it supports, it is also, where appropriate, assuming a supportive role with other development partners taking the lead.
 - The Bank is implementing a significant decentralization of staff for faster and more informed decision making at the country level.

During the IDA15 discussions, Canada and many other donors urged IDA to strengthen its work on statistical capacity building to ensure that results are being properly measured and that the data is being used to shape policies and programs. It was agreed that IDA would incorporate a more comprehensive discussion of weaknesses in statistical capacity in each CAS, follow up with financing and technical advice, where appropriate, and improve staff incentives to focus on results. Canada also encouraged IDA to strengthen its Results Measurement System by including gender-disaggregated data in order to report on and properly target progress on gender equality. IDA agreed to work towards this goal.



To further improve effectiveness at the country level, Canada and many other donors urged IDA to do more to draw non-traditional partners, including new multilateral funds, emerging donor countries and private sector donors, into its harmonization and alignment efforts. This was agreed, along with further progress in decentralization, internationally recruited staff, the use of recipient country systems for program delivery and more predictable disbursements.

Climate Change

There is strong consensus that climate change presents an urgent challenge to the entire international community, but it is of particular concern to developing countries as they will suffer most from the impact of variable climate. IDA15 participants therefore agreed that it was important to discuss IDA's role in helping client countries with climate change adaptation and mitigation efforts.

Canada welcomed these discussions, as climate change is a development issue which IDA is well placed to address. We noted the need to harness the strength of the private sector, given the enormous financial and technological needs, and urged IDA to ensure that its activities are properly coordinated with other partners in this area, including the Global Environment Facility (GEF).

It was agreed that IDA would mainstream climate change adaptation into CASs, pilot tools for better climate risk management, scale up financial support for these projects, tap into carbon finance¹³ to fund increased use of clean energy technologies, and improve coordination with the GEF and other donors in this area.

IDA15 Financial Contributions

The replenishment provided IDA with a record US\$41.6 billion in contributions for the three years beginning July 1, 2008. Of this amount, US\$25.1 billion will come from donors, a 42-per-cent increase over donor contributions in IDA14 (see Chart 5).

Canada has committed C\$1.3 billion (SDR 798 billion) over the next three years, funded from our International Assistance Envelope (IAE), Canada's source for aid spending.¹⁴ This represents a considerable increase in our IDA support, up almost 50 per cent in SDRs from our IDA14 contribution (C\$1.04 billion; SDR 534 billion). However, with the appreciation of our currency, our Canadian dollar payments to IDA will rise by 25 per cent.

Altogether, we will provide 4 per cent of total donor financing for IDA15, up from 3.75 per cent under the last replenishment. Our IDA contribution will account for 9.2 per cent of Canada's aid budget for 2008, up from 7.4 per cent in 2007.

Our strong financial support for IDA15 reflects a strong alignment between the institution's operations and Canada's aid priorities:

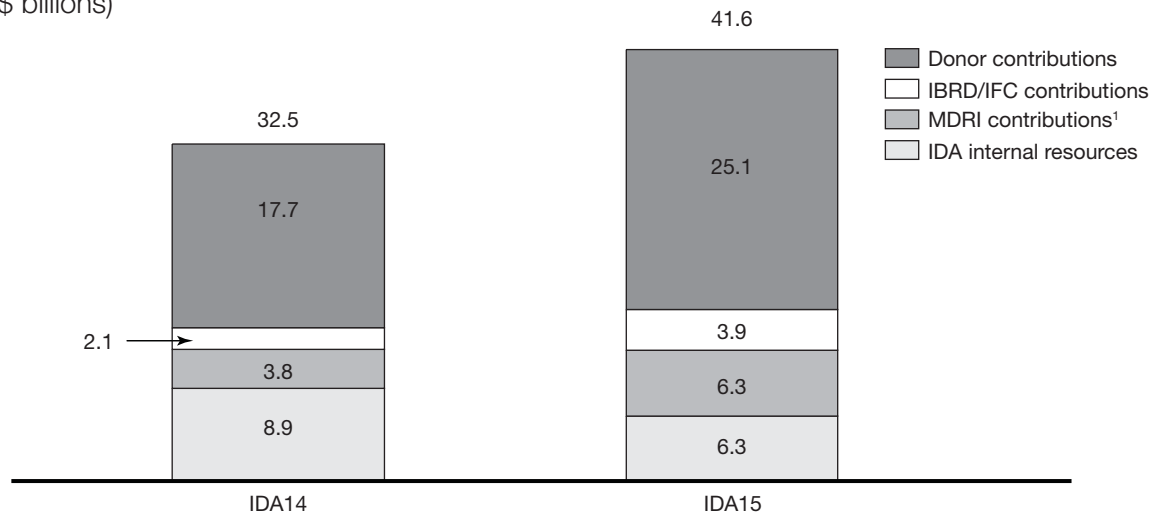
- Canada's 2007 budget committed "to make our existing aid resources work more effectively." IDA is widely held to be one of the most effective aid institutions.

¹³ Money contributed by governments and companies in Organisation for Economic Co-operation and Development countries to purchase project-based greenhouse gas emission reductions.

¹⁴ Budgets 2006 and 2007 reaffirmed Canada's commitment to double aid spending to about \$5 billion per year by 2010–11 (from 2001–02 levels of about \$2.5 billion) through IAE growth of 8 per cent per year. The increase in our IDA contribution will be funded out of this 8-per-cent growth.



Chart 5
IDA14 and IDA15 Contributions
(US\$ billions)



¹ Donor contributions to compensate IDA for loan repayments and interest lost from cancellation of debt under the Multilateral Debt Relief Initiative.

- Canada's 2007 budget also announced that Canada will be focusing its traditional bilateral aid in fewer countries to improve effectiveness. Enhanced support through our IDA15 contribution allows Canada to maintain an important multilateral presence in countries where we will no longer be active bilaterally.
- As over 50 per cent of IDA's resources are expected to go to Africa, our strong IDA15 pledge supports Canada's commitment to double our aid to Africa by 2008–09 from 2003–04 levels.
- Significant focus on fragile states, debt sustainability and results.
- IDA seeks to build country systems (e.g. regulatory and transportation systems, good governance), creating enabling local environments in which our bilateral efforts can achieve better results.

Ending the “Lend-and-Forgive Cycle”

As indicated in the 2006 report, a second broad priority for Canada in 2007 was to help end the “lend-and-forgive” cycles of the past by promoting debt sustainability. To this end, progress was achieved on several fronts. First, a number of important enhancements were agreed to in the IDA15 discussions, as discussed in the subsection “Debt Sustainability” under “Canada at the World Bank: What Happened in 2007.”

In addition, Canada actively worked with other G7 countries to push the World Bank and IMF to strengthen their joint Debt Sustainability Framework (DSF). Assessments of sustainable debt levels under the DSF have now been expanded to look not just at a country's overall debt stock, but also its rate of debt accumulation.



Finally, Canada and other G8 countries achieved important progress on arrears clearance, a key step in achieving debt sustainability. A number of heavily indebted poor countries (HIPC) have large arrears owing to the World Bank, IMF and African Development Bank (ADB), as long periods of severe conflict have impeded their capacity to repay past loans. Until their arrears are cleared, these countries cannot benefit from debt relief under the HIPC Initiative or MDRI, or receive concessional financing from the World Bank, IMF or ADB to help them emerge from conflict. Clearance of these arrears requires substantial financial resources and coordination efforts by the international community. Liberia's arrears were addressed in 2007, representing the first case of large-scale arrears clearance.

After many years of civil war, Liberia has made tremendous strides in establishing political and economic stability. However, a legacy of high debt has prevented much-needed social investments. A major obstacle to receiving significant debt relief under the HIPC Initiative and MDRI was the US\$1.5 billion in arrears that Liberia owed to the IMF, World Bank and ADB.

Securing adequate financing to clear Liberia's arrears took concerted effort by the G8, with Canada playing a leading role. Canada contributed C\$44 million and actively encouraged others to do their part. In January 2008, adequate funding was secured from donors and an agreement was reached on a strategy to clear Liberia's arrears to all three institutions, making the country eligible for a total of US\$3 billion in debt relief under the HIPC Initiative and MDRI.

Liberia's arrears clearance operation is a great demonstration of donor cooperation and will help pave the way for other countries facing significant arrears due to protracted conflicts. Canada's leadership in this operation underscores our commitment to helping well-performing developing countries receive the support they need to reach their long-term development goals.

Other Developments in 2007

Paul Wolfowitz's Resignation

In May 2007, the Executive Directors began investigating allegations of possible misconduct by Paul Wolfowitz, then President of the World Bank. At that time, Canada's Governor urged the Bank to undertake a fair and transparent process to assess Mr. Wolfowitz's actions. To this end, a panel of Executive Directors was set up to investigate the allegations in a fair and transparent manner.

On May 14, the panel found that Mr. Wolfowitz had violated Bank rules in arranging an assignment for his partner. Mr. Wolfowitz offered his resignation to the Executive Board on May 17. After a discussion with Mr. Wolfowitz, the Executive Directors accepted his resignation, stating that, while a number of mistakes were made, they accepted that those involved acted ethically and in good faith.

Robert Zoellick's Nomination

Canada has long called for the Bank to introduce an open, transparent and merit-based process for the selection of its President. To this end, in May 2007, the Executive Board put out a call for any Executive Director to make a nomination and set a firm timetable and profile of key selection criteria, which was publicly released. The sole nominee was Robert B. Zoellick, a former US Trade Representative and Deputy Secretary of State. The Executive Board held an informal meeting with Mr. Zoellick to discuss key issues of interest to the Bank before making its decision.



Mr. Zoellick was confirmed as the World Bank's 11th President in July 2007. He brings a strong record of experience to the job, and Canada was supportive of his nomination. Looking ahead, Canada will work with others on the Executive Board to put in place a process to allow for the selection of the best-qualified candidate, regardless of nationality.

A New Strategic Direction

To support his vision for the Bank as a catalyst for “inclusive and sustainable globalization,” Mr. Zoellick outlined six strategic themes for the Bank's future direction.

- 1) Meeting the needs of the poorest, particularly in Africa.
- 2) Fragile and post-conflict states.
- 3) Middle-income countries.
- 4) Regional and global public goods (GPGs).
- 5) The Arab and broader Islamic world.
- 6) The development learning agenda.

President Zoellick discussed these themes with the Bank's Governors during the Annual Meetings in October 2007 and has set up working groups to look at specific actions within each of the six areas. Canada welcomes these efforts to better define the Bank's long-term strategy, and we urged the Bank to work towards the following goals:

- **Appropriate focus.** For the Bank to maximize its effectiveness, it needs a strategy that helps it focus on its strengths within each of the six broad areas, rather than spreading itself too thinly. This would involve moving away from activities where the Bank is seeing low results, or where other organizations are better placed to lead efforts.
- **Engaging the private sector on GPGs.** A long-term, sustainable approach on GPGs will require greater engagement with the private sector. In particular, innovative financing initiatives, like the Advance Market Commitment and the Caribbean Catastrophe Risk Insurance Facility, can work to mobilize private sector investment. We see innovative initiatives such as these as crucial in pushing the GPG agenda forward.
- **Synergies within the World Bank Group.** It is important that the Bank improve coordination across its different agencies to better leverage all of its tools to maximize development impact.

Governance and Anti-Corruption

Corruption is an obstacle to economic and social development as it undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends. The harmful effects of corruption are especially severe on the poor, who are hardest hit by economic decline, are most reliant on the provision of public services, and are least capable of paying the extra costs associated with bribery, fraud, and the misappropriation of economic privileges.

In April 2006, Governors asked the Bank to elaborate a broad governance strategy to help member countries strengthen governance and deepen their fight against corruption. Following extensive consultations with representatives of governments, donors, civil society, parliaments, the private sector, academia and other stakeholders, the Bank produced a Governance and Anti-Corruption (GAC) strategy, which it presented to Governors at the World Bank-IMF Spring Meetings in 2007.



Canada supported the original call for a renewal of the Bank's approach to government accountability and corruption, as these are priority issues for the Government of Canada, both domestically and abroad. We encouraged the Bank to put in place transparent operational guidelines for the handling of situations where corruption and weak governance are a concern. Through our interventions at the Executive Board, in discussions with Bank senior management and through involvement in jointly funded activities such as Trust Funds and other initiatives, Canada is actively working to hold the Bank and its partners to a high standard.

As the Bank implements the GAC strategy, we would like to see an emphasis on results. In particular, the Bank and countries concerned should work in partnership to measure and monitor results at the country level and set GAC markers to gauge progress.

The Governance and Anti-Corruption Strategy

The GAC Strategy Aims to Improve Governance and Fight Corruption at the Project, Country and Global Level

- | | |
|---------------|--|
| Project level | <ul style="list-style-type: none">• More clearly integrate good governance into the preparation of Bank projects.• Intensify supervision, detection and enforcement, especially for activities where the risks of corruption are high. |
| Country level | <ul style="list-style-type: none">• Intensify capacity building work, including public financial management, procurement and civil service reform.• Expand work on initiatives to strengthen transparency, participation and oversight in partnership with governments, the private sector and civil society. |
| Global level | <ul style="list-style-type: none">• Strengthen bilateral and multilateral partnerships to promote coordinated donor action, especially in high risk environments.• Intensify engagement with the private sector in tackling corruption. |



The StAR—Helping Developing Countries Recover Looted Funds

An integral part of the GAC strategy is the Stolen Asset Recovery (StAR) initiative, launched by the World Bank and the United Nations (UN) Office on Drugs and Crime in September 2007 to step up international efforts to recover developing countries' stolen assets and stem the flow of looted funds.

Stolen assets are often hidden in the financial centres of developed countries, and bribes to developing country officials often originate from firms operating in both developing and developed countries. The StAR initiative's objective is to create the global partnerships needed to address this problem. A core part of the StAR Action Plan is advocacy to persuade developing and developed countries to ratify the UN Convention Against Corruption (UNCAC), the first global anti-corruption agreement that provides a regime by which proceeds of corruption can be returned to their rightful owners. It will also provide legal and technical advice to countries attempting to recover stolen assets, and services to monitor recovered assets to ensure that they are used transparently and effectively.

Canada is committed to fight corruption as a worldwide problem that undermines democracy, human rights and the rule of law. We played an active role in developing the UNCAC and made a commitment, under the April 2006 Federal Accountability Action Plan, to ratify the Convention as soon as possible. In May 2007, Parliament passed legislation to make Canadian law consistent with the provisions of the Convention and in October 2007 Canada ratified the UNCAC.

Health

In April 2007, the World Bank released a new strategy entitled, *Healthy Development: The World Bank Strategy for Health, Nutrition, and Population (HNP) Results*, as an update to its 1997 HNP strategy. The development of a new strategy was prompted by recent changes in the global context for health financing, including:

- Increased global attention to HNP in developing countries, with total financing jumping from US\$6 billion in 2000 to US\$14 billion in 2006.
- An explosion of new multilateral, bilateral and private initiatives that has challenged the World Bank's traditional role as the predominant HNP financier, and created a system with several large financiers.
- Many of the new organizations focus on one priority disease.
- Renewed recognition of the importance of strengthening health systems as a whole for sustainable outcomes and to support the success of priority disease interventions.

The new HNP strategy was also designed to address challenges within the Bank's HNP program. In particular, it ranked lowest in terms of implementation quality among all sectors in the Bank for the last five years and suffered from a very weak focus on measurement of results, making progress difficult to track.

The updated strategy is intended to improve the Bank's contribution to HNP by renewing its focus on results and concentrating on its areas of comparative advantage, in particular strengthening overall health systems and ensuring adequate human and financial resources remain available for core health programs.



We believe that a number of new global HNP initiatives play a key role in mobilizing donor financing and providing targeted interventions, and we have provided several projects with significant contributions.¹⁵ However, we also recognize that the rapid proliferation of these initiatives and lack of coordination places a real burden on developing countries and creates challenges at the country level. We are pleased that the new HNP strategy will include a focus on assisting countries in effectively integrating global programs into national health care systems and will strengthen the Bank's focus on effective coordination with other donors and organizations on the ground. As a bilateral donor, Canada is also actively engaging in donor coordination efforts at the country level.

Clean Energy

Affordable and sustainable energy services are central to economic development and improved living standards, and it is expected that developing countries will account for much of the future increase in energy consumption. Recognizing that fossil fuels will continue to be the single greatest fuel source to meet growing demand, Canada and other G8 countries at the Gleneagles Summit in 2005 called on the World Bank to take a leadership role in creating a new framework to accelerate global investment and financing for clean energy and development.

In developing the Clean Energy Investment Framework (CEIF), Canada encouraged the Bank to strike an appropriate balance between the global need to take action on climate change and the need for the poorest countries to have access to affordable and sustainable energy to lift themselves out of poverty.

And, while we encouraged the Bank to scale up its support for clean energy sources to support the CEIF, we also realize that oil and coal will continue to be a major fuel source for the world's poorest people for the foreseeable future and that extractive industries will remain important for the economies of many developing countries. We therefore supported the Bank's plan to retain some level of participation in the oil and coal sector, as we believe that by staying engaged, it can have an influential role in ensuring that the best environmental and social practices are followed and that the goal of sustainable poverty reduction is achieved. Altogether, the Bank's participation in oil and coal is expected to remain relatively small (less than 5 per cent of total lending per year).

Finally, we urged the Bank to ensure that the CEIF highlights the critical role of the private sector in accelerating the transition to a low-carbon economy, as it is clear that we will not succeed unless this challenge is taken up in the marketplace. The CEIF should help the international community determine how it can best make use of its financial, technical and convening abilities to mobilize this much-needed private investment.

¹⁵ Including the Global Fund to Fight AIDS, Tuberculosis and Malaria (Canadian contributions of \$528 million since 2001), the Global Alliance for Vaccines and Immunization (\$188 million since 2001), and the Global Polio Eradication Initiative (\$235 million since 1988).



In this regard, Canada has been encouraging the Bank and others to look beyond their traditional focus on country-level interventions to consider what role it can play in catalyzing private sector participation in addressing climate change at the global level. In particular, the time may be ripe to consider an innovative financing initiative, similar to the Advance Market Commitment initiative, to accelerate global investment in the development of new clean energy technologies.

The CEIF was approved by the Bank's Governors in April 2007.

Three Areas of Action for the World Bank Under the CEIF

- | | |
|------------------------------------|---|
| Access to energy | <ul style="list-style-type: none">• Policy and regulatory support to help client countries improve financing prospects and scale up investments.• A particular focus on Africa, with a target of providing electricity access to 29 million more people by 2015. |
| Transition to a low-carbon economy | <ul style="list-style-type: none">• Strengthen program of analytical work and scale up low carbon investments.• More financing for the incremental costs of clean energy projects through new mechanisms for carbon financing.• Studies to help identify lower-carbon development paths that respect poverty alleviation and economic growth targets for India, China, Brazil, Mexico and South Africa. |
| Climate change adaptation | <ul style="list-style-type: none">• Scale up efforts and create new tools to assess countries' risks from climate change; build their capacity to manage risks; and invest in adaptive measures. |

We are pleased to see that the Bank has already made substantial progress in implementing its Action Plan under the CEIF, for example:

- Total World Bank Group lending for energy projects is to exceed US\$10 billion for the 2006–2008 period, up from US\$7 billion in 2003–2005.
- Support for energy in Sub-Saharan Africa rose to US\$1.1 billion in 2007, compared to US\$0.6 billion in 2006.
- Lending for low-carbon projects represented 40 per cent of energy lending in 2007, up from 20 per cent in 2004, while lending to oil, gas and coal fell from 29 per cent to 17 per cent.
- Two new facilities were created to scale up the use of carbon finance: the Carbon Partnership Facility and the Forest Carbon Partnership Facility.
- Consideration of climate change vulnerabilities was mainstreamed in 32 per cent of CASs in 2007, up from 15 per cent in the 2000–2005 period.
- The Bank launched the first regional disaster insurance facility in the world, the Caribbean Catastrophe Risk Insurance Facility, which will help with climate risk management and adaptation.



Innovative Development Initiatives

Advance Market Commitment (AMC)

An Advance Market Commitment (AMC) is an innovative way to protect the lives of the world's poorest children by making vaccines available in developing countries more quickly. Although vaccines are an extremely cost-effective development tool, vaccine-makers invest relatively little to create vaccines for diseases prevalent in developing countries, given the perception that the countries will have limited capacity to pay for them. Under an AMC, donors put money aside with a promise to supplement the purchase price of vaccines once they are developed. This stimulates vaccine-makers to accelerate efforts, as they have more certainty about recouping the costs of developing these vaccines and bringing them to market. Donor funding is guaranteed as long as vaccines meet stringent, pre-agreed criteria regarding effectiveness, cost and availability; there is demand from developing countries for the vaccines; and the vaccine-maker agrees to continue supplying vaccines at fair prices that developing countries can afford after the pool of donor funding has been exhausted.

Canada has played a leadership role in moving the AMC model from a promising theoretical concept to a functioning program. Working closely with the World Bank, the Global Alliance for Vaccines and Immunization (GAVI) and a handful of other donors, Canada has very actively participated in the design, financing and implementation of the AMC. Canada was also the first to make a financial commitment to the initiative, with an announcement at the G8 Summit in St. Petersburg in 2006, a move that helped galvanize commitments from other donors over the months that followed.

In February 2007, Minister Flaherty, with his counterparts from Italy, the United Kingdom, Norway and Russia, together with the Bill & Melinda Gates Foundation, the World Bank and GAVI, officially launched the AMC at a special event in Rome. Altogether, donors committed US\$1.5 billion for a pilot AMC for pneumococcal disease, a leading cause of childhood mortality in the developing world. Canada's total contribution will be US\$200 million.

A key strength of the AMC mechanism is that donors only pay for success. Vaccines bought under the AMC scheme will have to meet strict criteria, set by an independent committee. No AMC money will be paid out until, and unless, the right vaccine is developed.

The pilot AMC aims to accelerate the introduction of a pneumococcal vaccine for the developing world by up to 13 years, from 2023 to 2010. It is estimated that this could save 5.8 million lives by 2030.

Caribbean Catastrophe Risk Insurance Facility (CCRIF)

Launched in 2007, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) is the first regional disaster insurance facility in the world, providing participating Caribbean countries with rapid and guaranteed cash payments in the event of a "catastrophic" earthquake or hurricane.

The CCRIF is another innovative development tool in which Canada has taken a lead role. Canada has been involved in the CCRIF since its beginning stages, actively working with our Caribbean constituents to create a financing option that responds to their needs. The Executive Director representing Canada at the Bank played a key role in gaining full Caribbean participation in the Facility. We have also demonstrated our commitment to the CCRIF by contributing \$20 million to the initiative, making Canada by far the Facility's largest donor, as well as actively encouraging other donors to contribute.



The CCRIF provides many benefits. The rapid and guaranteed cash payment provided when a natural disaster triggers the Facility's payment threshold ensures that funds are available to finance immediate post-disaster recovery and should give governments time to mobilize additional resources for longer-term reconstruction activities. Further, by pooling the individual risks of participating countries, the Facility lowers the cost of insurance coverage by approximately 40 per cent, thereby providing Caribbean countries with an insurance option that would be too costly to undertake individually. In addition, donor contributions to the facility serve to lower premium payments even further. IDA has also provided financing to help countries such as Dominica, Grenada and Haiti pay their premiums.

In the aftermath of Hurricane Dean in August 2007, the CCRIF came under criticism from some constituents as payment was not triggered. This stemmed largely from a misunderstanding over the purpose of the Facility and to the agreed trigger threshold levels—the CCRIF is designed as a response to truly catastrophic events, and Hurricane Dean fell below the threshold level. Following discussions between CCRIF administrators, the World Bank and CCRIF member countries, several modifications were made to better align the Facility with the expectations of Caribbean country members. Some of these changes include: lower premiums, higher maximum payouts, a minimum payout size, a lower trigger point and increased disaster risk management support. As a pilot project for a new and innovative disaster financing tool, the CCRIF will continue to evolve over time as experiences are incorporated, member country needs are refined and expectations clarified.

The CCRIF had its first payout in December 2007. Both Dominica and Saint Lucia received approximately US\$500,000 following an earthquake that triggered payment.

Conditionality

In response to stakeholder concerns over the scope and complexity of policy conditionality that accompanies its lending, the Bank conducted a review in 2005, and implemented a new policy in 2006 to help better focus its conditionality. The policy introduced five good practice principles: country ownership, harmonization, criticality, transparency and predictability, and customization to country circumstances. An update on the implementation of the new policy was provided to the Executive Board in December 2007. This report found that Bank activities have been broadly consistent with the good practice principles.

Canada strongly supports these good practice principles, which facilitate the country-led formulation of economic and other reforms critical to the development process. We believe that conditionality can provide important incentives for meaningful reform, but that the conditions applied should be limited to only those essential for the success of the program or project. We note that during the IDA15 discussions, African leaders delivered the clear message that well-designed loan conditions can help improve their success in implementing priority reforms.



Canada's Voting Record in 2007

Canada and other shareholders typically raise concerns and questions about specific Bank operations before they get to the Executive Board. As a result, decisions at the Board are generally taken by consensus. Executive Directors may, however, abstain or vote against projects or policies in consultation with their constituencies. In 2007, the Executive Director representing Canada supported all policies and projects approved by the Board, with two exceptions, as detailed below.

Similarly, the Board of Governors is asked to vote on a number of resolutions throughout the year. Below are Canada's positions on the four resolutions taken in 2007.

Voting Record of the Executive Directors Representing Canada in 2007 (only oppositions or abstentions listed)

- In November 2007, Canada's Executive Director at the World Bank abstained on an IFC Investment in the Masinloc Coal-Fired Thermal Power Project in the Philippines, owing to concerns over a significant investment in a less-than-cleanest technology coal plant. While it was recognized that coal will continue to be an important energy source for the Philippines over the medium term, investments in such operations should be set within an overall strategy to move toward cleaner energy sources. In the absence of such a strategy for the Philippines, IFC investment in this project was seen as not advisable.
- In December 2007, Canada's Executive Director at the World Bank abstained on a proposal to extend the IFC's Performance-Based Grants Initiative (PBGI) pilot. The PBGI is designed to provide aid to the private sector for reaching specific performance based targets. In reviewing the proposal, it became clear that some of the funds were being used for technical assistance and did not differ from existing business lines at the IFC. This, combined with inadequate responses from IFC management to a series of questions raised by the Executive Director and his colleagues about the PBGI, led to an abstention by a number of Executive Directors. The Executive Director will review the use of performance-based aid to the private sector once a thorough evaluation of the PBGI pilot has been completed.

Voting Record of the Canadian Governor in 2007

- Canada did not support a transfer from IBRD surplus funds to the Trust Fund for Gaza and West Bank in January 2007, owing to concern over the possibility of indirect benefit for the Hamas-led Palestinian Authority, and Canada's legal and foreign policy position.
- Canada supported the Republic of Montenegro's request for membership in MIGA in January 2007.
- Canada supported a transfer from IBRD surplus funds to the Low-Income Countries Under Stress Trust Fund in January 2007 to support the poorest, conflict-affected countries.
- Canada supported an increase in the salaries for the Executive Directors at the World Bank in August 2007 to reflect the increase in the cost of living in Washington, DC.



Canada's Financial Contributions in 2007

Canada is an important provider of donor funding for the World Bank. In 2007, we made the following contributions:

- **IDA:** In January 2007, Canada made its third and last payment of \$318 million, as pledged under the IDA14 agreement.
- **Multilateral Debt Relief Initiative (MDRI):** In 2005, Canada committed to provide a total of \$1.75 billion over 40 years to compensate IDA for the loans it agreed to cancel under the MDRI. In 2007, we made our second payment under this commitment, for a total of \$46.3 million to date.
- **Multi-Donor Trust Funds (MDTFs):** Canada also makes use of World Bank-administered MDTFs, where the World Bank manages funds on behalf of multiple donors. MDTFs have been established in a number of post-conflict situations in order to mobilize resources and coordinate reconstruction efforts. In FY2006–07, Canada contributed a total of \$292 million to these funds, and a further \$198 million in FY 2007–08.¹⁶ See Annex 10 for a table of these contributions.

¹⁶ Up to December 31, 2007 only.



Canada's Medium-Term Priorities at the Bretton Woods Institutions

Canada remains committed to giving clear voice to its guiding principles and priority issues at the IMF and World Bank. Building on the 2006 report, this section articulates Canada's medium-term priorities for the Bretton Woods Institutions as well as the Department of Finance's strategy over the next three years to support those priorities.

The Government's priorities fall under three themes: 1) governance and accountability; 2) institutional effectiveness; and 3) sustainable poverty reduction and growth. To promote greater accountability and transparency regarding Canadian activities at the Bretton Woods Institutions, specific actions are listed that indicate where the Government of Canada plans to concentrate its resources and advocacy over the next one to three years. Subsequent reports will return to these priorities and actions to measure Canada's success in achieving its goals.

Canada's Medium-Term Priorities Fall Under Three Themes

- 1) **Governance and Accountability**—Playing a leadership role in pushing for innovations in the governance and accountability structures of the Bretton Woods Institutions.
- 2) **Institutional Effectiveness**—Encouraging both institutions to deliver on their core mandates as effectively as possible.
- 3) **Sustainable Poverty Reduction and Growth**—Supporting the IMF and World Bank's efforts to ensure that the growth and stability they help foster today will have a lasting effect over the long term.

1) Governance and Accountability

The Government of Canada is committed to promoting good governance and accountability both at home and in its relations and operations in the international community. One of Canada's main objectives at the Bretton Woods Institutions (BWIs) is to ensure that they are well governed and accountable to their memberships and other stakeholders. Canada considers it critical that their governance structures be representative of the membership and their operations reflect the priorities agreed by that membership. Further, the BWIs must be financially sustainable and transparent. These elements are central to the institutions maintaining their relevance and legitimacy in an evolving global context.

Priority 1.1: Governance Reforms

A key challenge for the BWIs will be to adopt a more representative governance structure in order to reflect a changing global economy. Both institutions also face budgetary challenges that must be met. Finally, transparent decision making and operations are essential for well-governed institutions, and Canada will press the IMF and World Bank to build on considerable recent progress in these areas.



Pushing for Concrete Progress on IMF Quota and Voice Reforms

In the near future, the most important priority for Canada at the IMF is coming to agreement on a package of quota and voice reforms that leaves the Fund a more legitimate and representative institution. As previously noted, Canada supports the creation of a simple and transparent quota formula, which will reward dynamic economies and realign quota shares. We also strongly support protecting the vote share of low-income countries through a significant increase in basic votes. With a view to meeting the fall 2008 deadline for concluding the exercise, Canada will engage at the Executive Board and with our G7 and G20 partners, looking for points of agreement and proposing realistic solutions to remaining challenges that are consistent with Canada's principles for governance reform.

However, as previously mentioned, quota and voice reforms face significant challenges and there is considerable uncertainty about the outcome. Depending on the result of the negotiations, Canada will work at the Executive Board over the medium term to implement the agreed reforms, or be a driving force to find an alternative solution that reaches the membership's common goal of a more representative IMF. Canada's medium-term priorities for IMF governance reforms in next year's report will be developed based on our experiences in 2008.

Building Momentum for Reform at the World Bank

Like the IMF, the World Bank is facing pressure to ensure that developing country members have sufficient voice and participation in the institution. Voice reform has been a topic in a number of Development Committee Meetings since 2003.

World Bank staff are now working with shareholders to identify options that could comprise a reform package. The list of options covers not only changes in shareholding and voting power, but also possible reforms to institutional governance. These include reforming the size, term length and composition of the Executive Board and continued efforts to increase the representation of developing country nationals in senior management.

The Bank is taking a two-stage approach to formulating a reform package. The majority of institutional governance options will be addressed in the first phase while more complex options, such as adjustments in shareholding, will fall under the second phase. The first results of this exercise will be presented at the Spring Meetings in 2008.

Canada is very supportive of the Bank's voice reform exercise, as there is clearly a need to enhance the voice of developing countries within the institution. We are open to a reform package that includes at least a doubling of basic votes as a way of enhancing the voting power of the Bank's small and low-income members and would support proposals to introduce selective capital increases to ensure that all developing members benefit.

However, we also recognize that any adjustments to shareholdings must ensure that the Bank has sufficient financial backing to allow it to continue to borrow at the lowest possible interest rate and provide development financing at lowest cost. Thus, it is important that distribution of Bank shares should continue to be primarily based on each member's weight in the global economy.

We are also pleased that the reform exercise will look more broadly at improvements to the Bank's institutional governance, including enhancing the effectiveness of the Executive Board.



Action: Support discussions across the membership and play a bridging role on a new IMF quota formula, ad hoc quota increase and basic votes increase.

Timeline: 2008

Action: Support the development of a reform package at the World Bank that enhances the voice of developing country members through an appropriate mix of reforms to voting, shareholding and other institutional processes, while preserving the Bank's ability to borrow at the lowest possible interest rates.

Timeline: 2008–2010

Priority 1.2: Sound Finances

Another major challenge for the institutions will be to ensure that their financial situations are sound and sustainable for the future. This will require stakeholders to review the Fund and Bank's income and expenditure models.

Early Progress at the IMF in 2008

Canada supports the development of a package of measures that would eliminate the IMF's budget deficit and restore its finances to a sustainable footing. In particular, Canada is pushing for the inclusion of substantive expenditure and staff reductions as a complement to measures to increase IMF income. Our goal is budget reforms that result in a more cost-effective IMF that focuses its outputs on core institutional strengths and practises good financial governance. On the income side, we support a limited sale of IMF gold to provide greater investment income. We also support other Crockett report recommendations such broadening the scope of permitted IMF investments to increase the return on Fund resources.

The Managing Director has proposed the Spring Meetings in April 2008 as an ambitious target date to reach an agreement in principle on reforms to IMF finances. Canada will work to support this goal by continuing to actively contribute to the discussion of these proposals as they are elaborated at the Executive Board in the first part of 2008. We will also continue to show leadership at the IMF Executive Board in 2008 regarding efforts to cut the Board's operating budget on a magnitude similar to the overall cut in IMF spending.

Planning for the Future at the World Bank

At the World Bank, the challenge is not its current finances, but its sustainability in the future. While the IBRD realized income of US\$1.7 billion in 2007, the outlook for the future is more uncertain, in particular due to the global low interest rate environment (which prompted significant reductions in the IBRD's loan pricing in the fall of 2007). At the same time, there has been growing demand for the IBRD to contribute from its income to other development purposes (e.g. transfers to IDA, support for the global public goods agenda). The Bank and its members should consider whether the IBRD's income model can be adjusted to ensure that its financial sustainability will not be in jeopardy in the future, and that it will be able to generate income to continue making important contributions to other initiatives.



Canada has also been at the forefront of the call for reforms to the Bank's administrative budget. For example, we have been encouraging the Bank to better link its budgeting process to the broad strategic directions and key outcomes it expects to pursue in the medium and long term. It is important that the Bank target resources to support its priorities and that it find savings from activities that have become less relevant. The Bank has begun to move towards this goal, but further efforts will be needed.

Action: Work with IMF members to agree on a new sustainable and equitable income model for the Fund. Continue to support expenditure and staff reductions at the IMF with a focus on core institutional strengths and good financial governance. Work actively with the goal of concluding this exercise in 2008.

Timeline: 2008

Action: Advocate for a full review of the IBRD's long-term financial health, with a view to understanding the outlook for capital adequacy and prospects for net income, and whether any changes need to be made to the Bank's income model.

Timeline: 2008

Action: Advocate for improvements in the Bank's budgeting process to help ensure that its budget serves as a tool to strategically align its resources with its current priorities, and to identify savings from activities that have become less relevant.

Timeline: 2008–2010

Priority 1.3: Transparency

Governance and operational transparency are a basic tenet of effective institutions. Through the efforts of Canada and other countries, the IMF and World Bank have become increasingly transparent institutions. Both institutions have now adopted a policy of presumed disclosure for most documents, unless there are clear confidentiality concerns. Both also have independent review groups that provide candid, independent, public reviews of Fund and Bank performance in different areas of their core operations. IMF and World Bank Governors hold the institutions' management responsible to respond to these reviews and address any identified shortcomings.

A further review of Bank and Fund transparency was conducted by One World Trust, a non-governmental organization based in the United Kingdom. Their 2006 Global Accountability Index assessed the transparency capabilities of 34 international organizations, and ranked the World Bank and IMF third and fourth respectively, ahead of other well-known non-governmental organizations such as Oxfam, World Vision and Amnesty International.

At the IMF, Canada has consistently championed greater transparency since the early 1990s. The result is a disclosure policy that balances the need for confidentiality in IMF advice to members against the increasing recognition of the importance of transparency for the IMF's legitimacy and effectiveness. For country documents—which include economic reports or loan documents—this means that countries are in general expected to consent to publication. Currently, about 85 per cent of Article IV surveillance reports are published, as are the overwhelming majority of policy papers and summaries of Executive Board discussions.



Similarly, the World Bank has made considerable progress toward greater transparency over the past decade. Under its 2002 information disclosure policy, the Bank makes an enormous amount of operational information available to the public. The Executive Board approved further improvements to the policy in 2005 and, today, nearly all World Bank documents ranging from Country Assistance Strategies and sector studies to project-related reports are disseminated.

The Bank also makes the Executive Board's forward work program, the minutes of its meetings and the Chairman's summaries available on its website, although transcripts of Board discussions are not made public (see text box below). The policy documents discussed during the IDA replenishment discussions and the Chairman's summaries are also available online.

The Bank continues to review the provisions and implementation of its disclosure policy on a regular basis, with the next review scheduled for 2008. Canada will continue to encourage the Bank to make as much information public as possible while respecting the need for some confidentiality to preserve the opportunity for frank discussion at the Executive Board and with client countries.

Restrictions on Disclosure of Executive Board Discussions at the IMF and World Bank

The IMF and World Bank have increasingly adopted disclosure policies based on the presumption that material should be disclosed whenever possible. This presumption of disclosure also applies to the workings of the institutions' Executive Boards. Reflecting this approach, considerable information is provided to the public concerning the decision-making processes of the Boards, including their work programs and agendas, as well as the overwhelming majority of country and policy documents submitted for consideration by Executive Directors. In many cases, a summary of Executive Board discussions and conclusions is also published.

The disclosure policies do not, however, allow disclosure of representations made by Executive Directors in their respective Executive Boards. This policy reflects in part the nature of the IMF and World Bank as financial institutions, providing advice and financing to members on matters that may require discussion of commercially confidential or market-sensitive information. Further, the IMF and World Bank provide forums for the debate of politically sensitive national policies, in a similar manner to the functioning of the Canadian Cabinet system. The effectiveness of the institutions often hinges on their ability to act as trusted advisors and provide a forum for frank debate on policy development. Canada supports this policy.

Looking for Targeted Improvements at the IMF

For the IMF, proactive transparency efforts regarding its loan conditionality, especially in low-income countries, needs to be improved. This was highlighted in the IEO report *An IEO Evaluation of Structural Conditionality in IMF-Supported Programs*, which focused on the impact of recent streamlining conditionality initiatives at the institution and the need for better communication of the goals and design of conditionality.

In Canada's view, better communication in IMF documents and outreach sessions about the nature of program conditions and their desired impact would have two beneficial results. First, it would ensure that conditionality is well rooted in the core goals of the country program. Second, it would provide interested parties with a better understanding of the reasoning behind various conditions that might otherwise appear poorly conceived.



Canada will continue to push for these measures at the IMF Executive Board. At the World Bank, progress on transparency and further opportunity for disclosure will be assessed as part of a planned review of its transparency policy in 2008.

Action: Encourage the IMF (through the Executive Board) to improve public understanding of its role in low-income countries and the nature of its conditionality using existing documents and communication channels.

Timeline: 2008–2010

2) Institutional Effectiveness

Consistent with Government of Canada core principles, a second major Canadian objective is to ensure that the BWIs are achieving demonstrated effectiveness in carrying out their mandates. This means tailoring their services to focus on what they are best at and what member countries want, being well coordinated with other international partners and exploring innovative new ways to reach their goals.

Priority 2.1: IMF Surveillance and Crisis Prevention

While Canada is encouraged by recent progress at the IMF in strengthening its surveillance role, more remains to be done on current initiatives, and there is room for greater innovation in other areas.

In 2008, we plan to monitor the Fund's progress in incorporating best practices into its Article IV reviews of member economies, with a view to providing a critical assessment of its success and suggesting areas for improvement. Canada will also contribute to the development of the triennial Statement of Surveillance Priorities (SSP), which is intended to provide clear direction on surveillance priorities and enhance IMF accountability for the focus and quality of its surveillance.

Operational priorities beyond 2008 will be developed in response to our experiences over the coming year. However, efforts to strengthen the IMF's key role in global surveillance will continue to be a priority. Canada will also support the Managing Director's vision for the IMF as the international institution with a comparative advantage in linking financial sector developments with the real economy. The global financial turmoil since mid-2007 demonstrates the importance of this link for effective surveillance.

Further, beyond traditional bilateral surveillance (e.g. Article IV reviews) and multilateral surveillance (e.g. the *World Economic Outlook* and *Global Financial Stability Report*), Canada believes the IMF can play an increasingly important role as a forum for discussions on addressing global imbalances and future challenges that may require concerted action by national governments. This would be a natural extension of the Fund's surveillance work and should lead to better policy making in member countries. While the IMF's first experience with bringing together key players for consultations on global imbalances in 2006 and 2007 was a limited success, the institution should learn from experience and build on its initial efforts.



Action: Analyze the impact of the 2007 Decision on Bilateral Surveillance on Fund surveillance outputs (Article IVs). Depending on the outcome, possibly push for more rigorous implementation of the revised policies.

Timeline: 2008

Action: Work to implement a Statement of Surveillance Priorities in conjunction with the Triennial Surveillance Review, ensuring sufficient input and buy-in from national capitals.

Timeline: 2008

Action: Work to improve the integration of the IMF's analysis of financial system developments in the *Global Financial Stability Report* with the assessment of trends in the real economy provided by the *World Economic Outlook*. Support Fund work to make this analysis more applicable to policy making in member countries.

Timeline: 2008–2010

Priority 2.2: Aid Effectiveness

Getting the best development outcome from our aid spending is a priority for the Government of Canada. In this regard, the federal budget for 2007 set out an ambitious agenda to improve the effectiveness of Canada's bilateral aid program. This emphasis on effectiveness also extends to our participation in multilateral initiatives.

Innovative Technical Assistance Delivery at the IMF

In FY2007, the IMF provided more than 438 person-years¹⁷ of technical assistance, roughly three quarters of which was directed to low-income and lower-middle-income countries and roughly one-quarter of which was funded by donors. In recent years, the IMF has taken a number of steps to improve the management and delivery of its technical assistance to strengthen country ownership and to better align technical assistance priorities with its surveillance function.

Commensurate with Canada's view that the IMF must focus on its core mandate and comparative advantages when considering budget-cutting proposals, we believe the Fund must focus on areas of core competency in its technical assistance activities. Further, there must be a cost-effective, competency-based division of labour with the World Bank in all training efforts, such as is being achieved through the Caribbean Regional Technical Assistance Centre.

Improving the capacity of member countries to monitor, analyze and report on accurate and robust economic data sets is fundamental to promoting sound monetary and macroeconomic policies and enabling effective IMF surveillance.

In 2008, the Government of Canada will encourage the IMF to examine and implement innovative training solutions to address the need for increased technical capacity, including the introduction of needs- and means-tested, demand-driven programming. We will also continue to support a strong role for the BWIs in the global effort to monitor and provide technical assistance regarding national anti-money-laundering and counter-terrorist-financing regimes.

¹⁷ One person-year equals 260 working days.



Improving Country-Level Effectiveness at the World Bank

For the World Bank, challenges remain on a number of fronts:

- **Harmonization and Alignment:** Over the last few years, many developing countries have seen aid become more fragmented, with a rapid increase in the number of donors and organizations offering assistance, but each providing smaller amounts and often earmarking for specific activities. This has created major problems in terms of coordination and an increased administrative burden, and is a significant barrier to effective development.

In 2005, under the Paris Declaration on Aid Effectiveness, the international community agreed on a set of targets to increase harmonization among donors and align their programs to a single country-owned development strategy. Canada supports the steps the World Bank Group has taken in this regard, but we encourage it to accelerate efforts towards meeting the targets and fostering real partnerships with other donors and organizations. Within this theme of aid effectiveness and partnerships, the Bank should also make progress on fostering closer cooperation between its own agencies.

- **Measuring Results:** Canada applauds the Bank's strengthened focus on results (e.g. IDA's Results Measurement System, results-based CASs). However, it is clear that results cannot be properly measured and tracked without the collection of accurate, timely and useful statistics. We strongly support the efforts the Bank has made to help build statistical capacity in developing countries, and believe this work can be strengthened. Measuring for results will present an even greater challenge as the Bank moves into the area of global public goods.
- **Poverty and Social Impact Analysis:** Another aspect of delivering aid effectively is to properly understand how a proposed reform will affect all stakeholders. For the Bank, this analysis often comes in the form of Poverty and Social Impact Analyses (PSIAs), which evaluate the impact of policy reforms on the welfare of different stakeholder groups, with particular focus on the poor and vulnerable. However, some stakeholders have expressed concerns that the Bank has not been systematically conducting PSIAs and have questioned the quality of some of the analysis.



Action: Promote focused IMF technical assistance that is demand-driven and, more specifically, helps build macroeconomic and financial statistics capacity, and encourages sustainable debt management policies and public revenue regimes, and effective capital market regulation.

Timeline: 2008

Action: Encourage the Bank to rationalize the Trust Funds under Bank management and ensure that they are strategically aligned with broader Bank priorities and initiatives.

Timeline: 2008

Action: Advocate that the Bank foster real partnerships with other donors and organizations, such as the UN and the IMF, to ensure that efforts are coordinated on the basis of a single country-owned development strategy.

Timeline: 2008–2010

Action: Urge the Bank to accelerate its progress towards the Paris Declaration targets, including reduction of parallel implementation units, use of joint missions and analytical work, and related decentralization of staff and decision-making powers.

Timeline: 2008–2010

Action: Promote a closer IFC and IDA partnership to ensure the best use of resources to maximize the Bank's contribution to private sector development in the poorest countries.

Timeline: 2008–2010

Action: Encourage the Bank to devote adequate resources to helping its clients build the capacity to properly measure development results.

Timeline: 2008–2010

Action: Urge the Bank to ensure that the quality and systematic use of PMAs are sustained and strengthened. In particular, push the Bank to update its good practice note on PSAs and post PSAs on the external website for public comment.

Timeline: 2008–2010



Priority 2.3: Innovation for Private Sector Participation in Development

Canada has been a strong advocate at the Bank for innovative initiatives that harness the strengths of the private sector for development. We believe this is particularly important as the Bank explores its role in the provision of global public goods. The magnitude of the financial and technical challenge that many of these issues present is beyond the scope of what governments can provide on their own, and we cannot expect to succeed unless this challenge is also taken up in the marketplace.

Canada has been working closely with the Bank in this area. In particular, the Advance Market Commitment (AMC) initiative is designed to mobilize private sector investment to develop a safe and affordable vaccine for pneumococcal disease. We believe the time is ripe for donors to consider how the AMC model or other innovative mechanisms might be used to tackle insufficient investment in the development of other global public goods, such as clean energy technologies.

Similarly, the Caribbean Catastrophe Risk Insurance Facility, the world's first regional disaster insurance facility, is a truly innovative initiative, bringing private sector skills, expertise and institutions to work alongside Caribbean governments and development partners. We encourage the Bank and other international partners to consider the merits of expanding it or linking it with other similar initiatives

The IFC is the key multilateral actor in promoting private sector development in developing countries. Canada has been encouraging the IFC to accelerate its engagement in frontier countries (i.e. least developed and other high-risk countries). Looking ahead, we will also engage with other donors and IFC staff to identify measures to enhance the development value-added of IFC operations.

Action: Encourage the Bank to take a leadership role on innovative approaches to development finance by acting as a financial intermediary for the AMC for pneumococcal disease in a manner that maximizes the efficiency, simplicity and credibility of the initiative.

Timeline: 2008

Action: Assess the strengths and limits of the Caribbean Catastrophe Risk Insurance Facility and consider the merits of expanding it or linking it with other similar initiatives.

Timeline: 2008

Action: Push for consideration of the use of the AMC concept or other innovative tools to mobilize private sector investment to tackle global public goods.

Timeline: 2008–2010

Action: Continue to encourage the IFC to accelerate its engagement in frontier markets and to identify measures to enhance the development value-added of IFC operations.

Timeline: 2008–2010



3) Sustainable Poverty Reduction and Growth

The real benefits of sustained and equitable economic growth to poverty reduction and societal well-being cannot be overstated. Another main objective for Canada is to ensure that the poverty reduction, growth and macroeconomic stability that the IMF and World Bank help foster today will have lasting results in the long run.

For both institutions, this will include encouraging developing countries to maintain sustainable debt positions and helping failed and fragile states onto a sustainable path of recovery. In addition, broad poverty reduction cannot be achieved unless growth is equitable, including the economic empowerment of women. Finally, both institutions have a role in helping countries consider environmental issues more fully in their development planning.

Priority 3.1: Debt Sustainability

Canada is strongly committed to reducing the debt burdens of the most heavily indebted poor countries to sustainable levels. We have been very active in the development and financing of the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative, which have helped recipient countries redirect freed-up resources to poverty reduction initiatives.

Under these initiatives, the G7, IMF and World Bank have all provided significant debt relief. Canada has been at the forefront by cancelling roughly \$1 billion in debts owed to Canada by HIPCs since 2000. We have provided a further \$509.8 million to the IMF, World Bank and African Development Fund since 1998 to compensate for the debts these institutions have cancelled. Canada will provide these institutions with a total of \$2.5 billion over the next 40 years for debt relief.

Canada believes that it is critical to ensure that this debt relief puts countries back onto a path of sustainable, long-term financial management and to prevent a return to the “lend-and-forgive” cycles of the past. We will continue to find opportunities to support efforts at the IMF and World Bank to help developing countries avoid unsustainable borrowing and to encourage creditor countries to lend in a way that is consistent with borrowing countries’ development plans and capacity to repay.

The IMF and World Bank have a significant role to play in these efforts, including through the development of the Debt Sustainability Framework to better monitor and prevent the reaccumulation of unsustainable debt, the Debtor Reporting System to collect debt data to improve the transparency of lending and borrowing activities, and the Non-Concessional Borrowing Policy to create the proper incentives for countries to borrow on concessional terms and ensure that debt sustainability is maintained. However, given that many countries are still at a high risk of debt distress and are reaccumulating unsustainable levels of debt, we see scope to further strengthen these tools. In particular, the IMF and World Bank must receive full disclosure from creditor and borrower countries on lending and borrowing activities to enable a robust reconciliation of data.



Action: Continue to monitor whether the Debt Sustainability Framework is effectively changing borrowing/lending behaviour to prevent the reaccumulation of unsustainable debt levels and assess whether improvements might be needed.

Timeline: 2008–2010

Action: Push for the BWIs to consider both non-concessional and concessional lending when assessing the appropriate level of debt reaccumulation post debt relief.

Timeline: 2008–2010

Action: Continue to improve the transparency of lending and borrowing data, and help to build debt management capacity in low-income countries.

Timeline: 2008–2010

Priority 3.2: Failed and Fragile States

Successfully reintegrating failed and fragile states into the global economy represents another major challenge. Over 14 per cent of the world's population, or 870 million people, live in fragile states, and it is estimated that they represent: 35 per cent of people living in absolute poverty; 46 per cent of the total number of children not receiving a primary education; and 51 per cent of the children who die before age 5 each year. Moreover, in the future, poverty is expected to become increasingly concentrated in these states. Canada has therefore been advocating for stronger multilateral support for these countries, as well as enhancing our own bilateral programs.

The IMF's core role in failed and fragile states is to aid national authorities in re-establishing macroeconomic stability and growth in the country. Canada supports the IMF's role in countries such as Afghanistan, Haiti and Lebanon, and will continue to encourage the IMF to focus on its core areas of expertise and adapt its policy advice and intervention methods to respect country-specific situations, while coordinating closely with the World Bank and other relevant organizations.

The World Bank is very active in this area, with IDA having provided US\$16 billion (19 per cent of its resources) over the last decade to fragile states. The Bank has also set up two large funds, the Post-Conflict Fund and the Low-Income Countries Under Stress Trust Fund, to provide a quick response and flexible funding mechanism. In addition, the Bank administers a number of Multi-Donor Trust Funds to mobilize additional donor financing for specific countries. Canada has contributed a total of \$466 million to the Afghanistan Reconstruction Trust Fund and \$40 million to the Sudan Multi-Donor Trust Funds at the World Bank and provides considerable assistance to a number of fragile states through our bilateral aid programs.



Afghanistan

Canada is part of a community of more than 60 nations and organizations that have committed to helping the Afghan people recover from decades of turmoil and upheaval. Canada has pledged substantial funding in support of these reconstruction and development efforts, making us one of the world's top donors to the country, and making Afghanistan our largest bilateral aid recipient.

As part of these efforts, Canada collaborates extensively with the World Bank. In particular, Canada, through the Canadian International Development Agency (CIDA), is a major participant in the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF), having contributed \$466 million to date and participating on the ARTF's donor committee, which is regularly convened in Kabul. CIDA financing for the ARTF has been targeted to several national priority programs, including:

- **The Recurrent Cost Window:** Supports the Government of Afghanistan in its efforts to re-establish a fully functioning and representative government system. It reimburses a portion of the Afghan government's day-to-day operating expenses, including wages for government employees, thereby helping to maintain and expand the delivery of basic services, such as health and education, to its citizens.
- **The National Solidarity Program:** The Afghan government's primary program for community development, aiming to reduce poverty by empowering communities to take initiative, improve local governance and increase social, human and economic capital.
- **The Microfinance Investment Support Facility for Afghanistan:** Supports local microfinance institutions that, in turn, provide small loans and financial services to poor Afghans.
- **The Education Quality Improvement Project:** Helps increase access, quality and gender equality in Afghanistan's education sector.

Canada was one of the donor countries pushing for fragile states to be a key theme for the IDA15 replenishment discussions, and we are pleased that a number of important enhancements were agreed to for IDA's engagement in these countries, including an increase in the level and duration of special allocations to post-conflict countries and a framework to clear the arrears owed to IDA and the IBRD by heavily indebted countries (like Liberia and Sudan), so that they can again benefit from IDA's support as they emerge from conflict. We will be actively monitoring these enhancements in order to help ensure that they are meeting the needs of these states, and are working to put them on a sustainable path for the future.

It is also important to note that the UN plays a very critical role in conflict-affected countries, often leading efforts where government capacity is non-existent or severely constrained. In this respect, the Bank and the UN have recognized a need to improve their coordination and clarify their respective roles in these countries. They are currently working towards a partnership agreement, and we urge them to ensure that these efforts translate into concrete improvements at the ground level.



Action: Through the Executive Board, continue to support greater focus of IMF engagement in fragile states (i.e. policy support for obtaining macroeconomic stability and facilitating arrears clearance where appropriate).

Timeline: 2008–2010

Action: Monitor whether IDA's new framework for arrears clearance operations preserves incentives for countries to complete reforms under the HIPC process after arrears clearance and determine whether improvements are needed.

Timeline: 2008–2010

Action: Monitor the enhancements to IDA's exceptional financing for post-conflict countries, as agreed in IDA15, to see that they provide enough financing to help post-conflict countries make development gains, and that the transition back to regular financing does not endanger their progress.

Timeline: 2008–2010

Action: Monitor the concrete steps taken by the Bank to improve its coordination with the UN in fragile states.

Timeline: 2008–2010

Priority 3.3: Gender

As a partner in the achievement of the Millennium Development Goals, the World Bank can and needs to play a critical role in supporting gender equality and women's empowerment. Canada has been a strong supporter of the Bank developing a Gender Action Plan, which seeks to integrate gender equality into its broader activities, and we welcomed its launch in September 2006. To underscore the importance of this work, Canada contributed \$1.5 million to support the Action Plan and accepted to be a member of the World Bank-sponsored Advisory Council for Women's Economic Empowerment. Canada strongly encourages the Bank to devote the resources necessary to ensure full implementation and accountability for its commitments.

Canada believes that the World Bank could improve its performance in achieving and reporting on gender equality results. In this context, Canada will urge the Bank to effect changes to the operations manual to mandate the full integration of gender equality objectives into Country Assistance Strategies and results reporting at the country level, including evaluation reports. In addition, Canada will encourage the Bank to allocate adequate resources to ensure every country program has an assigned gender equality specialist.

Finally, progress on gender equality outcomes at the country level cannot be monitored and gaps cannot be properly identified without proper statistics. In this regard, during the IDA15 discussions, Canada pushed for IDA to commit to collect gender-disaggregated statistics, and we were pleased that IDA agreed to work towards this goal. We hope to see real progress both in terms of tracking gender outcomes and reporting on them.



Action: Encourage the World Bank to update its operations manual to mandate the full integration of gender equality objectives into Country Assistance Strategies, results reporting and evaluations at the country level.

Timeline: 2008–2010

Action: Urge the World Bank to allocate sufficient budget resources to assign a gender equality specialist to each country program.

Timeline: 2008–2010

Action: Push the World Bank to collect and analyze gender-disaggregated statistics at the country level to properly track progress and report back on gender equality and use these statistics to improve policies and programs for the future.

Timeline: 2008–2010

Priority 3.4: Environment

Sustainable growth cannot be achieved without significant progress in addressing the world's environmental challenges. In many developing countries, the costs of environmental degradation have been estimated at 4 to 8 per cent of GDP annually. Natural resource degradation—depleted soils, insufficient water supply, rapidly disappearing forests, collapsed fisheries—threatens the health of millions of people. Pollution, too, continues to present a major health threat; an estimated 6 million people die annually, and many more get sick, in developing countries from water-related diseases, indoor air pollution, urban air pollution and exposure to toxic chemicals.

The IMF recently announced that it will undertake research to assess the fiscal aspects of climate change mitigation measures, including developing the appropriate public finance responses, evaluating some of the economic issues involved in choosing mitigation policies, and determining the impact of climate change policies on the IMF's core functions. The October 2007 *World Economic Outlook* briefly outlined elements of climate change and their potential economic impact, including:

- Negative impacts on output and productivity from long-term temperature change.
- Costs arising from efforts to mitigate carbon emissions.
- Costs from sea-level rise and increased severity of flooding.

Canada will support the IMF's efforts to increase analytical capacity concerning the impacts of climate change on national economies, in coordination with the World Bank, with a view to assessing appropriate policy responses.



The World Bank has had an Environment Strategy in place since 2001 to guide its work to help client countries identify and address their environmental challenges. World Bank policies also require environmental assessments to ensure that its projects and programs integrate principles of environmental sustainability. More recently, some of the Bank's members have been encouraging a move towards a stronger role in relation to climate change. At the 2005 G8 Summit in Gleneagles, Canada, along with other G8 countries, called on the World Bank to develop an investment framework for clean energy and sustainable development in developing and emerging markets. Canada is supportive of the resulting Clean Energy Investment Framework and we believe it provides a useful approach to address the interconnected areas of energy access, mitigation and adaptation.

The World Bank is currently exploring new tools for clean energy and climate change, including potential new financing mechanisms. While we are supportive of this effort, we believe that any new mechanism should complement or enhance existing initiatives, and promote future participation by developing countries in international agreements to reduce greenhouse gas emissions. In addition, as mentioned above, we encourage the Bank to consider how the AMC or other innovative financing approaches can be used to encourage clean energy technology development.

Action: Support IMF efforts to increase analytical capacity concerning the impacts of climate change on national economies (e.g. fiscal implications) in coordination with the World Bank.

Timeline: 2008

Action: Support the Bank's adoption of new tools for clean energy and climate change-related actions that complement or enhance existing initiatives.

Timeline: 2008–2010



Summary of Canada's Medium-Term Priorities at the Bretton Woods Institutions

1) Governance and Accountability

Priority	Short-Term Action (2008)	Medium-Term Action (2008–2010)
1.1 Governance Reforms Enhance the legitimacy of the BWIs through a more representative governance structure.	Support discussions across the membership and play a bridging role on a new IMF quota formula, ad hoc quota increase and basic votes increase.	Support the development of a reform package at the World Bank that enhances the voice of developing country members through an appropriate mix of reforms to voting, shareholding and other institutional processes, while preserving the Bank's ability to borrow at the lowest possible interest rates.
1.2 Sound Finances Sustainable income/expenditure models for the IMF and World Bank that support effective and efficient institutions.	Work with IMF members to agree on a new sustainable and equitable income model for the Fund. Continue to support expenditure and staff reductions at the IMF with a focus on core institutional strengths and good financial governance. Work actively with the goal of concluding this exercise in 2008. Advocate for a full review of the IBRD's long-term financial health, with a view to understanding the outlook for capital adequacy and prospects for net income, and whether any changes need to be made to the Bank's income model.	Advocate for improvements in the Bank's budgeting process to help ensure that its budget serves as a tool to strategically align its resources with its current priorities, and to identify savings from activities that have become less relevant.
1.3 Transparency Build on real past progress on institutional transparency.		Encourage the IMF (through the Executive Board) to improve public understanding of its role in low-income countries and the nature of its conditionality using existing documents and communication channels.



2) Institutional Effectiveness

Priority	Short-Term Action (2008)	Medium-Term Action (2008–2010)
<p>2.1 IMF Surveillance and Crisis Prevention</p> <p>Support progress on implementing recent surveillance reforms to increase effectiveness, even-handedness and candour.</p>	<p>Analyze the impact of 2007 Decision on Bilateral Surveillance on Fund surveillance outputs (Article IVs). Depending on the outcome, possibly rigorous implementation of the revised policies.</p> <p>Work to implement a Statement of Surveillance Priorities in conjunction with the Triennial Surveillance Review, ensuring sufficient input and buy-in from national capitals.</p>	<p>Work to improve the integration of the IMF's analysis of financial system developments in the <i>Global Financial Stability Report</i> with the assessment of trends in the real economy provided by the <i>World Economic Outlook</i>. Support Fund work to make this analysis more applicable to policy making in member countries.</p>
<p>2.2 Aid Effectiveness</p> <p>Get the most development impact from IMF and World Bank resources.</p>	<p>Promote focused IMF technical assistance that is demand-driven and, more specifically, helps build macroeconomic and financial statistics capacity, and encourages sustainable debt management policies and public revenue regimes, and effective capital market regulation.</p> <p>Encourage the Bank to rationalize the Trust Funds under Bank management and ensure that they are strategically aligned with broader Bank priorities and initiatives.</p>	<p>Advocate that the Bank foster real partnerships with other donors and organizations, such as the UN and the IMF, to ensure that efforts are coordinated on the basis of a single country-owned development strategy</p> <p>Urge the Bank to accelerate its progress towards the Paris Declaration targets, including reduction of parallel implementation units, use of joint missions and analytical work, and related decentralization of staff and decision-making powers.</p> <p>Promote a closer IFC and IDA partnership to ensure the best use of resources to maximize the Bank's contribution to private sector development in the poorest countries</p> <p>Encourage the Bank to devote adequate resources to helping its clients build the capacity to properly measure development results.</p> <p>Urge the Bank to ensure that the quality and systematic use of Poverty and Social Impact Analyses (PSIAs) are sustained and strengthened. In particular, push the Bank to update its good practice note on PSIAs and post PSIAs on the external website for public comment.</p>
<p>2.3 Innovation for Private Sector Participation in Development</p> <p>Continue to support innovative new ways to promote private sector participation.</p>	<p>Encourage the Bank to take a leadership role on innovative approaches to development finance by acting as a financial intermediary for the AMC for pneumococcal disease in a manner that maximizes the efficiency, simplicity and credibility of the initiative.</p> <p>Assess the strengths and limits of the Caribbean Catastrophe Risk Insurance Facility and consider the merits of expanding it or linking it with other similar initiatives.</p>	<p>Push for consideration of the use of the AMC concept or other innovative tools to mobilize private sector investment to tackle global public goods.</p> <p>Continue to encourage the IFC to accelerate its engagement in frontier markets and to identify measures to enhance the development value-added of IFC operations</p>



3) Sustainable Poverty Reduction and Growth

Priority	Short-Term Action (2008)	Medium-Term Action (2008–2010)
3.1 Debt Sustainability Avoid another lend-and-forgive cycle.		Continue to monitor whether the Debt Sustainability Framework is effectively changing borrowing/lending behaviour to prevent the reaccumulation of unsustainable debt levels and assess whether improvements might be needed. Push for BWIs to consider both non-concessional and concessional lending when assessing the appropriate level of debt reaccumulation post debt relief. Continue to improve the transparency of lending and borrowing data, and help to build debt management capacity in low-income countries.
3.2 Failed and Fragile States Better tools for assisting fragile states.		Through the Executive Board, continue to support greater focus of IMF engagement in fragile states (i.e. policy support for obtaining macroeconomic stability and facilitating arrears clearance where appropriate). Monitor whether IDA's new framework for arrears clearance operations preserves incentives for countries to complete reforms under the HIPC process after arrears clearance and determine whether improvements are needed. Monitor the enhancements to IDA's exceptional financing for post-conflict countries, as agreed in IDA15, to see that they provide enough financing to help post-conflict countries make development gains, and that the transition back to regular financing does not endanger their progress. Monitor the concrete steps taken by the Bank to improve its coordination with the UN in fragile states.
3.3 Gender A real mainstreaming of gender considerations across operations.		Encourage the World Bank to update its operations manual to mandate the full integration of gender equality objectives into Country Assistance Strategies, results reporting and evaluations at the country level. Urge the World Bank to allocate sufficient budget resources to assign a gender equality specialist to each country program. Push the World Bank to collect and analyze gender-disaggregated statistics at the country level to properly track progress and report back on gender equality and use these statistics to improve policies and programs for the future.
3.4 Environment Linking development and environment in a manner that is consistent with BWI core mandates.	Support IMF efforts to increase analytical capacity concerning the impacts of climate change on national economies (e.g. fiscal implications) in coordination with the World Bank.	Support the Bank's adoption of new tools for clean energy and climate change-related actions that complement or enhance existing initiatives.



Annex 1

Canadian Statements at the International Monetary and Financial Committee of the Board of Governors for the IMF

The Honourable Jim Flaherty, Minister of Finance for Canada

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Washington, DC

April 14, 2007

The dominant issue at our meeting today is how to meet the target that we set in Singapore to reach agreement on an ambitious package of International Monetary Fund (IMF) reforms by the fall of this year. The deadline is short, but this provides a strong incentive to move ahead quickly. In doing so, it will be important that we do not lose sight of the rationale underlying this reform exercise—improve the Fund’s legitimacy and effectiveness through a broad package of reform measures. This package should include IMF governance arrangements that better reflect the evolving economic weights of members, effective surveillance of members and the global economy, and a better set of tools for the prevention and resolution of financial crises. With these reforms, the Fund will be better able to respond to the challenges of economic and financial globalization, and remain a credible and effective guardian of a stable, market-based international financial and monetary system.

Global Prospects

We are encouraged that the outlook for the global economy remains positive, with the IMF projecting global growth of around 5 per cent in 2007 and 2008. Over the past year, growth has become more balanced, with Europe experiencing its strongest growth in six years in 2006 and the recovery in Japan gathering momentum. Combined with a moderation of growth in the United States, these growth patterns are favourable to unwinding global imbalances. Global economic fundamentals remain very strong, despite some recent turbulence in equity markets. The major world economies share many characteristics: strong growth, relatively low inflation, improving public finances, rising asset prices and low risk premia. However, there are risks to this outlook. As output gaps continue to narrow, there is a risk of rising inflation. Commodity prices are expected to remain at elevated levels, or perhaps increase further, a development that would be unlikely to contribute substantially to dampening inflationary pressures. In recent years, the economic and financial system has coped well with shocks, and we expect this to continue for the foreseeable future. But we must continue to work together to ensure that this remains the case.

Although the rebalancing of global growth is supportive of the unwinding of global imbalances over time, the size and persistence of these imbalances continue to pose a risk. In a global economy that is increasingly integrated, no country is fully isolated from disturbances in another. Therefore, it is clear that if we judge there to be risks of a disorderly adjustment, we must all play a role in helping ensure that these imbalances are unwound in an orderly fashion. As well, the Fund has a key role to play in this debate given its mandate to promote international monetary cooperation, and members must continue to support the Fund’s multilateral surveillance efforts to this end.



Canadian Developments

Canada's economy continues to operate at a high level of activity after a few years of robust growth. Final domestic demand remains strong and continues to be the main driver of growth. Canadian real gross domestic product (GDP) growth slowed moderately recently, given weaker U.S. demand, the past appreciation of the Canadian dollar and a cooling of the Canadian housing market. In 2006, real GDP increased 2.7 per cent—down slightly from a year earlier—while final domestic demand grew 4.5 per cent on solid support from non-residential investment and consumer spending. Total consumer price inflation has been volatile in recent months, largely due to energy prices. However, well-anchored expectations have helped keep core consumer price inflation relatively stable and near the Bank of Canada's 2-per-cent inflation target. Solid personal income gains, very strong job growth and still-low interest rates, coupled with Canada's strong monetary and fiscal fundamentals, should support the Canadian economy through 2007, with growth accelerating towards 3 per cent in 2008.

Canada's fiscal situation remains solid. According to the Organisation for Economic Co-operation and Development (OECD), on a total government basis, Canada was the only Group of Seven (G7) country in surplus in 2006 and will likely be the only G7 country to remain in surplus in 2007 and 2008. Total government net debt, as a percentage of GDP, has also declined steadily from a peak of nearly 71 per cent in 1995 to about 27 per cent in 2006. Canada has had the lowest total government net debt-to-GDP ratio of any G7 country since 2004, and we expect this to remain the case. To strengthen Canada's ability to deal with economic shocks and challenges such as population aging, the Government aims—and is on track—to eliminate Canada's total government net debt by 2021 at the latest. By doing so, Canada will be able to count itself among the very few OECD countries that are in a net asset position.

Irish and Caribbean Developments

Let me now turn to developments in Ireland and the Caribbean countries I represent.

The Irish economy recorded another very successful year in 2006. Real GDP grew by 6 per cent, somewhat ahead of potential, and only a slight slowdown is expected in 2007. With unemployment steady at around 4 per cent, there is effectively full employment and the economy continues to attract substantial inward migration. Growth in 2006 was heavily focused on the building and construction sectors as the economy continues to close the large deficit in infrastructure and housing. The strength of domestic demand and the relative weakness of the export sector resulted in a current external deficit of more than 3 per cent of GDP.

The strength of the economy and higher energy prices contributed to an increase in the rate of inflation. The harmonized index of consumer prices (HICP) rose by 2.75 per cent on average in 2006. The inflation differential over other Monetary Union countries widened somewhat. The European Central Bank tightened monetary policy through the course of 2006, and a moderation in the HICP to 2.5 per cent is expected in 2007. The strength of domestic demand, and especially the housing sector, contributed to a very strong fiscal outturn. Buoyant revenue led to an unexpectedly large surplus of 2.3 per cent of GDP and a fall in the debt-to-GDP ratio to 25 per cent. For 2007, a surplus of 1.2 per cent of GDP is budgeted. Within the budget, there is a continuing major emphasis on infrastructural investment to ease bottlenecks and boost the productive capacity of the economy.

In 2006, the Caribbean countries I represent experienced another year of economic expansion. Growth was robust, underpinned by the rebound in the tourism and agricultural sectors, as well as stimulus from activities related to the Cricket World Cup 2007 and continued strong foreign direct investment flows. Inflation was moderate, in spite of high oil prices and robust growth.



On the fiscal side, strong growth in revenue resulted in higher primary surpluses in a number of countries. However, the debt overhang remains a major challenge for many countries.

Progress has been made in deepening and advancing the regional integration process with the implementation of the Caribbean Single Market component of the Caribbean Single Market and Economy (CSME). Agreements have also been reached on contributions for the Regional Development Fund, which will provide assistance to those disadvantaged by the operations of the CSME. The Fund should be fully operational by July 2007. We encourage the international donor community to support this crucial integration effort.

Caribbean countries are extremely vulnerable to natural disasters. This has led Caribbean governments to seek assistance to access affordable catastrophic risk insurance. Thanks to the response of the World Bank and with the support from several donors, including Canada (the largest donor), the Caribbean Catastrophe Risk Insurance Facility, the first ever multi-country catastrophic insurance vehicle, is now a reality. We also believe this innovation can be expanded to small developing states in other regions of the world.

IMF Reform

In September 2006, I concluded my statement to the International Monetary and Financial Committee by emphasizing the need for a more comprehensive IMF reform package that goes beyond quota reform and addresses a broader agenda, including Fund surveillance, the institution's role in crisis prevention and resolution, and the Fund's financing sources. Fully implemented, this package of measures will enhance the Fund's capacity to safeguard global financial stability.

This statement still holds true today. We accomplished a great deal in Singapore, but we must work together to accomplish more. The Managing Director's Medium-Term Strategy has identified a number of priority areas for reform. Today, I would like to focus on four of these issues.

Quota and Voice Reforms

Successful governance reform is critical to enhancing the IMF's legitimacy in the eyes of its member countries. This requires significant progress in better realigning quota shares with the economic weight of member countries in the global economy. It also means that quotas and voting shares need to be responsive to changes in the global economy. I believe a successful quota reform exercise should have the following elements:

- A new quota formula that is simple, transparent and principles-based, and is aligned with the purposes and mandate of the IMF to promote growth and support the orderly integration of members into the global economy. The formula should be robust to future changes in the global economy so that the relative shares of dynamic economies continue to increase.
- A second round of quota increases that results in higher shares for the most dynamic economies, which can be found in all major regions of the world. To the maximum extent possible, major industrial countries should forgo potential quota increases in this round in order to maximize the realignment of relative quota weights.

Enhancing the participation and voice of low-income countries in the IMF is another important element of the reform package. I am encouraged that the Fund is making headway on developing the mechanism for increasing and protecting the level of basic votes, as well as studying ways to strengthen the effectiveness of small and low-income member participation in Executive Board discussions.



It should be noted that a new quota formula and subsequent quota realignment are not ends in themselves. They are means to an end. Agreement on quotas that are more representative of the global economy will enhance the Fund's legitimacy and the persuasiveness of its policy advice. To get that agreement, however, Fund members will have to demonstrate flexibility. Members must be prepared to rise above narrow self-interest in pursuit of an institution that can better deliver the global public good of a stable world economy. In short, quota and voice reforms must be principled and robust, and reinforce Fund legitimacy over the long term.

Surveillance Reforms

No less important to the IMF reform agenda is ensuring that the Fund has the tools and the appropriate governance structure to carry out candid, targeted and even-handed surveillance that is capable of identifying threats to external stability. More effective surveillance will improve the Fund's capacity to evaluate monetary, fiscal, financial sector and exchange rate policies that have the potential to adversely affect the international monetary system. It will also allow the Fund to engage in a constructive dialogue with members aimed at addressing risks to their prosperity and that of the global economy.

In this respect, reform of the framework that underpins Fund surveillance is an important issue that must be addressed. Over the past 30 years, significant differences have emerged between the 1977 Decision on Surveillance Over Exchange Rate Policies and current surveillance practices. This divergence has made it increasingly difficult to guide surveillance activities and to hold the Fund accountable. To update and improve the Fund's surveillance activities, progress is necessary in two key areas:

- First, we need to revise the 1977 Decision on Exchange Rates to put more emphasis on members' domestic policies as well as give the Fund the ability to better identify domestic macroeconomic and exchange rate policies that cause negative spillover effects. This will also reinforce the principle that surveillance should be applied to all members in a uniform and even-handed fashion.
- Second, we should also move quickly to introduce a surveillance remit, under which policy-makers could identify surveillance priorities and instruct the Fund to pursue them. This would both increase the flexibility of surveillance and improve the Fund's accountability. In doing this, we can increase support for the tough and often coordinated actions needed to promote international monetary stability and orderly adjustment of imbalances.

It is also important that these changes can be made without introducing new obligations for members, or changing the Fund's emphasis on constructive dialogue and persuasion.

Securing a Stable Source of Financing for the IMF

A third element that is highlighted in the Medium-Term Strategy as key to the long-term viability of the Fund is changes to the institution's financing model to promote greater predictability of income. Financial conditions in emerging markets have improved considerably over the last five years, and affordable access to international capital has reduced many emerging market countries' reliance on Fund resources. Paradoxically, this has exposed the Fund to significant financial pressures, as it has traditionally funded the bulk of its operations from its lending operations. The recent decline of lending volumes combined with the early debt repayment by major borrowers has reduced Fund income to historically low levels. The IMF is facing an income shortfall and will run a budget deficit for fiscal year 2007, with rising deficits expected in subsequent years.



It will be important for Fund members to work together to identify a sustainable financing model that supports the lending, surveillance and technical cooperation roles of the Fund, while ensuring that the institution remains on a solid financial footing. To this end, I welcome the recent release of the report by the Committee of Eminent Persons on the sustainable financing of the Fund, commissioned by the Managing Director to assess this problem. The Committee's recommendations are balanced and innovative, and provide a sound basis for progress. I look forward to a constructive and open debate on the Fund's financing model, as well as how the Fund can further improve its operational efficiency given current budgetary constraints.

The Role of the Fund in Low-Income Countries, and Technical Assistance

Our low-income members face particular challenges in establishing macroeconomic stability, building efficient financial sectors, developing sound legal and business frameworks and crafting effective policies for particular key sectors. In a global economy where jurisdictions compete for scarce direct investment, it remains a preoccupation even for members that have attained middle-income or advanced industrial status.

In their efforts, these authorities will require the Fund's continued attention to prevent the re-accumulation of unsustainable debt, to accommodate aid flows, and to observe international standards and codes in public financial management, financial sector policy and data dissemination. The absence of timely and reliable economic and financial data can be an impediment to policy-making, as we have observed in the discussions toward a new quota formula.

In our constituency, our Caribbean authorities appreciate the Caribbean Regional Technical Assistance Centre's (CARTAC) help in improving public expenditure management, tax and customs policy and administration, and macro policy analysis. CARTAC has proven to be an efficient multi-donor program and a fine example of Paris Declaration principles in action; we encourage other donors to join the United Kingdom, the European Union, Ireland and Canada in this effort.

In the provision of technical assistance, it is key that the Bank and the Fund collaborate effectively with each other and with other bilateral and international agencies. I therefore welcome the recently released report to the Managing Director and the World Bank President by the External Review Committee on IMF–World Bank Collaboration.

Looking Forward

The overarching goal of the package of reforms under the Managing Director's Medium-Term Strategy is to ensure that the IMF remains a relevant, effective and representative institution in an era of large and open global capital markets and increasingly dynamic economies. Canada remains committed to an ambitious reform agenda. Quota and voice reforms are fundamental to improved governance, while policy reforms are critical to enhancing the Fund's role in surveillance and crisis prevention. I look forward to working with my colleagues to achieve a successful outcome in these important areas.



Washington, DC October 20, 2007

On behalf of Canada, Ireland, and the Caribbean countries I represent in this Committee, I would like to extend my heartfelt appreciation to Managing Director de Rato at this, his last Annual Meeting. Through his leadership, including development of the International Monetary Fund's (IMF's) Medium-Term Strategy, Mr. de Rato has strengthened the Fund's capacity to fulfill its mandate of supporting a prosperous global economy.

I welcome the appointment of Mr. Dominique Strauss-Kahn as the new Managing Director. He brings to the IMF a wealth of experience and a strong vision for the Fund. I also welcome the appointment of Mr. Tommaso Padoa-Schioppa as the new Chairman of the International Monetary and Financial Committee (IMFC). I look forward to the new ideas and perspectives from both of these appointees, which will enable further progress to be made on the important challenges facing this institution.

We meet amidst reminders of these challenges, owing to the heightened uncertainty associated with the financial market turbulence that began this summer. Despite this increased uncertainty, I draw confidence that our institutions stand at the ready to support well-functioning markets. Central banks around the world are to be commended for their effective response to the sudden liquidity squeeze that hit short-term capital markets. Moreover, given the sound fundamentals supporting the global economy, I expect that the global economy will continue to register strong growth.

Nevertheless, the resilience of the global economy and financial system is clearly being put to the test by current developments. The challenge facing policy-makers is to carefully examine the root causes of the current financial volatility and draw the appropriate lessons for policy responses at the national and international levels. The rapid transmission of distress in the relatively small U.S. subprime mortgage market to global financial markets testifies to our global interdependence and our need for effective international institutions. In this regard, we must be doubly committed to reaching agreement on and implementing reforms to the IMF, including a realignment of quota that better reflects the evolving economic weights of members. Reform will strengthen the Fund, ensure its continued relevance, and allow it to effectively respond to new challenges in our global economic system.

Global Prospects

Since our last meeting, the global economy has been slightly weaker than anticipated, and the outlook has further clouded as a result of the turmoil in financial markets triggered by the collapse of the U.S. subprime mortgage market. The losses in that relatively small market quickly disseminated to global markets via the market for asset-backed securities, resulting in a global credit squeeze. Although quick action on the part of the Bank of Canada and other major central banks helped sustain market liquidity, certain market segments remain stressed, and the IMF anticipates a protracted period of adjustment. Nevertheless, the fundamentals of the global economy remain sound, and the IMF continues to project growth of around 5 per cent in 2007 and 2008.

To date, financial market turbulence has had the largest impact on the U.S. and Europe. Unlike past episodes of heightened uncertainty, the current adjustment in risk tolerance did not spark a wave of capital flight from emerging market economies. In part, this reflects the great strides made in Latin American and other emerging market economies in improving macroeconomic policies, which have increased investor confidence. Although the outlook for China and India has moderated owing to



lower external demand, their domestic economies remain at risk of overheating due to strong investment and capital inflows. The emerging economies are increasingly shifting from being primary beneficiaries of global growth to its major drivers.

The slowing of the U.S. economy and the associated depreciation of the U.S. dollar should help moderate the U.S. current account deficit and help unwind global imbalances. However, global imbalances remain significant, and continued progress is needed on implementing the recommendations that emerged from the multilateral consultations. Finally, although global inflationary pressures have eased, we must remain vigilant and committed to inflation control.

Canadian Developments

Canada's economy continues to operate at a high level of activity, owing to robust domestic demand. However, the tightening of credit conditions, the appreciation of the Canadian dollar to parity with its U.S. counterpart and the weakness in the U.S. housing market are expected to reduce Canadian exports and negatively affect growth. As a result, the IMF expects Canadian growth to ease to the 2.5-per-cent range in 2007 and 2008.

Final domestic demand remains strong and continues to be the main driver of growth. Canadian real gross domestic product (GDP) growth slowed moderately in 2006, given weaker U.S. demand, the past appreciation of the Canadian dollar and a cooling of the Canadian housing market. In 2006, real GDP increased 2.8 per cent—down slightly from a year earlier—while final domestic demand grew 4.7 per cent on solid support from non-residential investment and consumer spending. Solid personal income gains, very healthy job growth and still-low interest rates, coupled with Canada's strong monetary and fiscal fundamentals, are supporting the Canadian economy. In each of the first two quarters of 2007, growth exceeded 3 per cent at an annual rate.

Total consumer price inflation has been volatile over the last year, largely due to energy prices. However, well-anchored expectations have helped keep core consumer price inflation relatively stable and near the Bank of Canada's 2-per-cent inflation target.

Canada's fiscal situation remains solid. On a total government basis, Canada was the only Group of Seven (G7) country in surplus in 2006 and will likely be the only G7 country in surplus in 2007 and 2008. Total government net debt, as a percentage of GDP, has also declined steadily from a peak of nearly 71 per cent in 1995 to about 27 per cent in 2006. Canada has had the lowest total government net debt to GDP of any G7 country since 2004, and we expect this to remain the case. To strengthen Canada's ability to deal with economic shocks and challenges such as population aging, the Government aims—and is on track—to eliminate Canada's total government net debt by 2021, at the latest. By doing so, Canada will be able to count itself among the very few industrialized countries that are in a net asset position.

Irish and Caribbean Developments

Now let me turn to developments and policy directions in Ireland and the Caribbean countries. The performance of the Irish economy remains very strong, although the pace of expansion is likely to decelerate significantly over the period ahead. Real GDP grew by 5.7 per cent in 2006, with growth this year likely to be around 4.5 per cent and dipping to 3 per cent in 2008. While slowing, growth will remain strong by international standards. Apart from somewhat moderated international investment, the easing of growth reflects a fall-off in activity in the construction sector, which has been particularly buoyant in recent years. The less buoyant economy should contribute to an easing in inflation, which has tended to be somewhat faster than in partner monetary union countries.



The fiscal position remains strong. Exceptional revenue buoyancy in 2006 pushed the surplus close to 3 per cent of GDP, but a more normal pattern of a small surplus is in prospect for this year. On a net basis, the government debt ratio has fallen to only 12 per cent of GDP. With the economy slowing, employment growth will ease and migration flows will moderate, but there should be little change in the unemployment rate. While there are some downside risks, the overall prospect is for a fairly smooth transition from a period of exceptionally high growth to a still-strong but sustainable growth pattern.

The Caribbean countries that I represent continued to record robust economic activity in 2007, led by a strong recovery in tourism. Regional economic growth, which had fallen sharply with the decline in tourism in the wake of September 11, 2001, has rebounded strongly and inflation is moderate, despite high oil prices. Several countries took advantage of the favourable economic conditions to strengthen fiscal balances which, in combination with debt restructurings in some countries, has led to a modest decline in debt ratios. The region nonetheless remains vulnerable to exogenous shocks due to the still-high public debt levels and large current account deficits.

Regional integration continues to be an integral part of our Caribbean members' economic strategy, with implementation of the Caribbean Single Market and Economy scheduled for next year. The authorities of these small, open countries view the regional integration process as critical to helping them overcome some of the limitations imposed by size and compete more effectively in the global economy. While the timetable for the establishment of the Regional Development Fund has slipped, work continues apace on its full implementation.

The region is vulnerable to natural disasters, particularly hurricanes. The World Bank Caribbean Catastrophe Risk Insurance Facility (CCRIF) was established earlier this year as the first multi-country catastrophic insurance to help reduce the fiscal costs of hurricanes. The recent experience with Hurricane Dean has demonstrated, however, that the facility is far from a panacea. In fact, it underscores the need for continued self-insurance via continuing investment in disaster preparedness and mitigation efforts. There is also a need to build awareness and deepen understanding of the CCRIF.

IMF Reform

Significant progress has been made on the Medium-Term Strategy since our meetings in the spring. In particular, the adoption of the 2007 Decision on Bilateral Surveillance will improve the way surveillance is conducted, including assessing the potential for domestic policies to have spillover effects. I also note that the Executive Board agreed that a triennial Statement of Surveillance Priorities will help identify a focused, forward-looking set of priorities for surveillance. These are very promising developments, but our task is not yet finished. It is important that the Statement of Surveillance Priorities be accompanied by a strong accountability framework.

Quota and Voice Reforms

Agreement on a package of reforms to the structure of IMF quota and voting power is a key priority for Canada, Ireland, and the Caribbean members of my constituency. Progress in this area, aimed at better aligning IMF governance arrangements with developments in a rapidly changing global economy, is essential to strengthening the legitimacy of the IMF as a cooperative international monetary institution, and is the foundation for progress on the wide range of initiatives that comprise the IMF's Medium-Term Strategy.



Important progress has indeed been made in recent months. We all agree on the overall objectives of quota reform, which is to increase the voting share of developing countries (particularly dynamic economies) and to increase the voting share of Poverty Reduction and Growth Facility countries. We also agree on some elements of the quota formula, and there have been some innovative proposals aimed at reconciling the broad spectrum of interests across the Fund's membership. However, divisions remain on key issues, and we will need to redouble our efforts if an agreement is to be reached by the spring meetings.

Progress will require flexibility on the part of all members of the IMF. We ask all members to look beyond their short-term interests and work together toward agreement on a package of reforms that will keep the IMF as the institution at the centre of the international monetary system of the 21st century.

Surveillance Reforms

Surveillance over member exchange rate and economic policies is fundamental to the IMF's mandate and central to reforms under the Medium-Term Strategy. I welcome the progress since our last meeting in ensuring that the Fund has the tools and the appropriate governance structure to carry out candid, targeted and even-handed surveillance that is capable of identifying threats to external stability. This progress has been realized in two ways.

First, this June, the Executive Board adopted the 2007 Decision on Bilateral Surveillance, replacing the 30-year old 1977 Decision. The 2007 Decision puts more emphasis on members' domestic policies, as well as giving the Fund the ability to better identify domestic macroeconomic and exchange rate policies that lead to external instability. It also reinforces the principle that surveillance should be applied to all members in a uniform and even-handed fashion that promotes open, two-way dialogue. Despite some inevitable teething pains related to its implementation, the benefits of the new Decision are already apparent.

It is also important to note that, in the spirit of consensus, this reform was agreed to without introducing new obligations for members or changing the Fund's emphasis on constructive dialogue and persuasion. I look forward to the continued integration of the 2007 Decision into the Fund's daily work, as well as the regular review of progress in Fund efforts to focus on those priorities in an effective and even-handed manner.

The second area of progress took place in August, when the Executive Board came to consensus on the desirability of a triennial Statement of Surveillance Priorities. The Statement of Surveillance Priorities will work in conjunction with the Fund's triennial surveillance reviews to ensure that the right issues are focused on in a frank, fair and flexible manner in support of global economic and financial stability.

I am also pleased that many on the Executive Board supported the idea that the effectiveness of the Statement of Surveillance Priorities would be enhanced if it were endorsed by the IMFC. In my view, endorsement of surveillance priorities by the IMFC and ultimately by all Governors is key to ensuring widespread political buy-in and effective accountability for targeted, balanced and effective Fund surveillance, as well as support for the tough policy actions that are often needed to promote international monetary stability and orderly adjustment of imbalances.



Securing a Stable Source of Financing for the IMF

As we know, the Fund's traditional means of financing its operations has become increasingly unsustainable. In January, the Committee of Eminent Persons on the sustainable financing of the Fund (the Crockett Committee) released its report containing a range of possible financing options. Staff have begun to elaborate on these options, and I look forward to further analysis. At this time, I would encourage members to continue to keep all options on the table, as a package of measures will likely be required to successfully address the current situation.

I also commend Staff and Management for their ongoing efforts to identify efficiency-enhancing measures, improve the link between inputs and outputs in the budgeting process, and slow the growth in nominal administrative expenses. These efforts are timely, as they provide a basis to build on going forward. New income streams for the Fund should be advanced in parallel with substantial reductions in expenditure, including not only the search for further efficiencies, but also larger questions about how the Fund's outputs and priorities could be refocused in line with its comparative advantages and the evolving needs of its members.

The IMF's Role in Low-Income Countries

The Fund's low-income members face particular challenges in establishing macroeconomic stability, building efficient financial sectors, developing sound legal and business frameworks and investing in infrastructure. Those that have been the recipients of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative debt relief should use the fiscal space created by debt relief to accelerate economic growth and reduce poverty. This requires a commitment to restrain excessive external borrowing to avoid another run-up of unsustainable debt.

In their efforts, these authorities will require the well-coordinated assistance of the Fund, the Bank and the rest of the international community. I therefore welcome the recently approved Joint Management Action Plan to improve coordination and communication between the Staffs of the Fund and the Bank and the more focused role for the Fund in the Poverty Reduction Strategy process and low-income countries more generally. I also encourage all borrowers and lenders to participate fully in the HIPC debt relief process, and to respect the Low-Income Country Debt Sustainability Framework.

The authorities of our constituency extend their appreciation to the Caribbean Regional Technical Assistance Centre (CARTAC) for its help in improving macro policy analysis, public expenditure management, and tax and customs policy and administration. CARTAC has proven to be an efficient multi-donor program and a fine example of Paris Declaration principles in action; I would welcome other donors to join Canada, Ireland, the United Kingdom and the European Union in this effort.



Annex 2

Canadian Statements at the Development Committee of the Boards of Governors of the World Bank and IMF

The Honourable Jim Flaherty, Minister of Finance for Canada

on behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines

Washington, DC

April 15, 2007

Our discussions this weekend have a common theme: ensuring that the Bretton Woods institutions remain relevant and effective in an evolving global economy. Both the International Monetary Fund (IMF) and World Bank face situations in which many middle-income members that have traditionally relied on international financial institution financing are now increasingly able to access private markets. While this is a testament to the success of the development process, most of these countries continue to suffer from large and persistent pockets of poverty. The development issues associated with low-income countries, including fragile states such as Afghanistan and Haiti, also continue to pose challenges. And for all borrowing countries, there is a strong desire for a more effective voice to reinforce developing country ownership of World Bank lending programs and policy advice.

As discussion of IMF reform continues to gather steam, we need to constructively review the challenges facing the World Bank to ensure that it can continue to effectively and credibly fulfill its poverty reduction mandate. Recently, the Government of Canada announced a three-point program for enhancing the focus, efficiency and accountability to ensure the effective use of aid resources in our international assistance efforts. These principles are equally valid for international institutions.

1. Focusing on Areas of Comparative Advantage

Our first priority is strengthening focus. Shareholders are looking to the Bank to sharpen its priorities and improve the focus of its operations. This will require a candid assessment of the budgetary pressures and spending trade-offs as well as a stronger focus on results. The Bank's strategic vision must be aligned with its core competencies and comparative advantages. In this vein, we look forward to the Bank's forthcoming analysis on its long-term strategy to identify priority actions and internal capacity to promote global poverty reduction efforts over the next 10 years. We would stress that it will be critical for this exercise to take full stock of the Bank's two-pillar development strategy—improving the investment climate and empowering people—to ensure that it can successfully meet these new challenges and take advantage of new opportunities.

As recommended by the report of the United Nations Secretary-General's High-Level Panel on UN System-Wide Coherence, the Bank, IMF and UN must work more closely together to remove unnecessary duplication and build on their respective strengths. In this regard, there are two areas of comparative advantage where we see the Bank playing an increasingly important role.



Provision of Global Public Goods

While much of the Bank's work is undertaken at the country level, the institution also has a critical role to play in addressing issues that transcend national boundaries. In 2000, the Development Committee asked the Bank to focus on five broad priorities for global collective action: communicable diseases, economic governance and financial stability, the environmental commons, trade integration and the knowledge revolution. In our view, these issues are even more important today. Moreover, to the extent that the financing for public goods is critical for poverty reduction, there is even a larger role for the Bank.

Let me take this opportunity to also commend the Bank for several of its recent initiatives. In particular, we welcome:

- The recent launch of the innovative Advance Market Commitment (AMC) initiative for a pneumococcal vaccine, to which Canada contributed \$115 million. The discovery of such a vaccine is expected to save more than 5 million lives in the developing world by 2030. Ireland will follow the progress of this initiative and participate as an observer in subsequent AMC discussions.
- The ongoing work of the Extractive Industries Transparency Initiative (EITI), to which Canada contributed \$750,000 for this year. The EITI strengthens the transparency and accountability of resource-rich developing countries for the revenues received from foreign companies.
- The recent launch of the Caribbean Catastrophe Risk Insurance Facility Trust Fund, to which Canada contributed \$20 million. The facility provides small Caribbean countries with risk insurance against natural disasters—insurance is not currently available from private markets.
- The Bank's Action Plan on the Clean Energy for Development Investment Framework, which addresses the issues of energy access, mitigation and climate change. Going forward, the Clean Energy Investment Framework will need to be mainstreamed into the Bank's work and anchored in its client-driven Country Assistance Strategies.
- The Bank's recent initiative to establish a Trust Fund for Statistical Capacity Building, to which Canada is contributing \$6 million over the next three years. Improved statistical systems are essential for accountability, evidence-based policy development and the assessment of aid effectiveness.

Going forward, the Bank will need to clearly identify its areas of comparative advantage and adopt a collaborative approach in the provision of global public goods.

Promoting Gender Equality

The World Bank also needs to play a critical role in supporting women's economic empowerment. At our 2006 Spring Meeting, Canada strongly encouraged the Bank to fulfill its commitment to develop a gender action plan that is integrated into its broader activities. Canada commends the Bank for having launched its Gender Equality as Smart Economics Action Plan, which outlines the Bank's comparative advantages in and commitments to achieving the gender equality and women's empowerment Millennium Development Goal. To underscore the importance of this work, Canada has contributed C\$1.5 million to support this plan. We strongly encourage the Bank to devote the resources necessary to ensure full implementation of the gender action plan.



2. Effective Aid for Differing Development Needs

Our second priority is improving efficiency. At the World Bank, this means providing aid that effectively addresses a spectrum of development needs. The 2005 Paris Declaration describes aid effectiveness in terms of a new partnership for development based on the principles of local ownership, alignment and harmonization, managing for results and mutual accountability. In addition to ownership, countries need the capacity to deliver their development agendas. The World Bank's report on Harmonization and Alignment for Greater Aid Effectiveness recognizes the importance of building strong institutional capacity and the important role that the Bank must play to achieve sustainable development results.

The Challenge of Africa

Now, more than ever, we have an opportunity to make real progress in Sub-Saharan Africa as governance reforms, higher commodity prices, increased aid flows and debt relief have significantly improved the region's economic outlook. To take advantage of this opportunity, we must carefully consider those areas where donors and the Bank can have the largest developmental impact.

A key area is improving debt management policies and enhancing debt sustainability. The Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives have provided the world's poorest and most indebted countries with an unprecedented opportunity to focus resources on poverty reduction. It is critical that we use this opportunity wisely and avoid the re-accumulation of unsustainable debt and another lend-and-forgive cycle.

Going forward, the Bank and IMF need to undertake a more rigorous analysis of mechanisms that can signal when a country's debt accumulation threatens to become unsustainable. This should involve transparent guidelines for borrowers and creditors, which encourage responsible financing practices and create incentives for the provision of more accurate and timely data to the World Bank's Debt Reporting System.

Investments in health and education are also key to ensuring that people can take advantage of stronger economic conditions. At the Annual Meetings in September, Canada joined the Netherlands, Norway, Sweden and the United Kingdom to release a statement in support of broad-based long-term predictable financing in education in order to realize the full potential of these investments. Canada is a strong supporter of the Education For All – Fast Track Initiative (EFA-FTI), which encourages donor and recipient countries to work in a spirit of partnership to achieve the education Millennium Development Goals. Last year, Canada announced a \$25-million contribution to multilateral assistance through the EFA-FTI. This is in addition to the \$240 million that Canada had earlier committed under its bilateral aid program in support of the EFA. We look forward to a successful meeting in Brussels in May.

Failed and Fragile States

Successfully reintegrating failed and fragile states into the global economy represents another major challenge. Almost 500 million people live in fragile states, with about half of these populations earning less than a dollar a day. Canada, Ireland and the Caribbean welcome the decision to include fragile states as a special theme in the IDA15 replenishment exercise. A key issue is how the International Development Association (IDA) can best help fragile states to strengthen their institutional capacity and improve their governance structures. Weak capacity and governance not only hinder development, but also limit aid allocations under IDA's Performance-Based Allocation System. We must give priority to early efforts to build capacity in post-conflict countries and, as a matter of prevention, other fragile states.



Analysis is also needed on possibly expanding the financial instruments IDA has available to meet the needs of fragile states, including both duration and eligibility for post-conflict allocations. A well-targeted and monitored capacity-building plan should be a central piece of the Bank's overall reform program and Country Assistance Strategies in post-conflict and other fragile states. Further, we strongly suggest close cooperation with the UN in setting the stage for international efforts in early recovery and medium-term reconstruction.

IBRD Partner Countries

We welcome the World Bank's recent evaluation of its role in International Bank for Reconstruction and Development (IBRD) partner countries. The Bank's engagement in these countries must be based on its comparative advantages and reinforce the institution's poverty reduction mandate. A key comparative advantage of both Bretton Woods institutions is the provision of technical assistance to strengthen both economic policy-making and institutional capacity. This is clearly the best way to ensure that conditionality is kept at a minimum, while improving investment climates and reducing income inequalities.

While more can be done to streamline lending operations in many IBRD partner countries, we would underscore the continued need to maintain strong project social and environmental safeguards. These strong standards are critical to ensure that the Bank's operations continue to have a strong developmental impact. It follows that the Bank needs to exercise caution that these standards are not eroded in countries, which have access to financing from private financial institutions.

Small States

Efforts to advance the development agenda cannot overlook the particular challenges facing small states, particularly in the Caribbean region. The Bank has an important role to play in assisting small states to position themselves for success in an increasingly globalizing world. There is a clear need for additional analytical work on options to promote competitiveness, diversification and increased trade. The continuing loss of critical skills in many small states as a result of migration also presents an important challenge. Support for human resource development is crucial as these countries expand services and other exports in which they have a comparative advantage. On the related issue of remittances, we encourage the Bank to continue to work with other international financial institutions and partner countries to better understand these arrangements and improve their effectiveness. To that end, we look forward to upcoming work by the World Bank on the Canada-Caribbean remittance corridor.

3. Enhancing Accountability Through Improved Governance

Our third priority is increasing accountability. At the World Bank, we aim to do this in a variety of ways, including through governance reforms. The World Bank and IMF have different mandates, and it is not necessary for governance reform at the two institutions to proceed in lockstep. However, there is a clear need to assess how best to enhance the voice of developing countries within both institutions. The discussion in the Bank should include consideration of how to improve transparency and accountability of selecting the President, the scope to increase staffing resources for African Executive Board constituencies, and how developing countries could be encouraged to take up their full IDA subscriptions. The institution also needs to review how best to attract qualified developing country candidates to senior management appointments. On this point, I would congratulate the Bank on its recent appointment of two dynamic African women as new Vice Presidents.



In moving ahead with governance reforms, the differences between the two Bretton Woods institutions also need to be respected. In particular, World Bank reforms must appreciate the Bank's capital structure and ensure the preservation of the IBRD's credit rating in international capital markets.

Conclusion: Ensuring a Strong Institution Going Forward

In closing, it is essential that the World Bank remain a strong and viable institution in a changing global economic environment. It has been almost a decade since the Bank's financial situation was reviewed by an independent committee in the wake of the Asian financial crisis. For my part, I believe that serious consideration could usefully be given to a new exercise that would review the implications of the growing access of many middle-income country members to international capital markets for the Bank's longer-term financial situation, as well as current proposals to consider more active risk management practices as a way to bolster its net income in the coming years.



Washington, DC, October 21, 2007

On behalf of my constituency, I would like to take this opportunity to welcome Robert Zoellick as the new President of the World Bank. He takes his post at an important juncture for the Bank. I am confident that the wealth of experience and knowledge that Mr. Zoellick brings to the job, and the clear commitment of Bank management and staff, will ensure that the Bank can effectively deliver on its development mandate.

Today, we focused much of our discussion on defining the future role of the World Bank. In our view, there are two aspects that must be addressed as we move forward in our discussions on a strategic direction for the Bank. First, shareholders and the Bank must work together to ensure an appropriately focused role. Second, the governance structure of the Bank must enhance its accountability and effectiveness. These efforts can only succeed if underpinned by strong financial stewardship, now and in the future.

A Focused Role for the World Bank

Important progress is already being achieved. In particular, we welcome President Zoellick's articulation of key priorities for the Bank going forward, underpinned by the thoughtful analysis in the Long-Term Strategic Exercise. Clearly, the opportunities and challenges the President has identified are important ones for the institution. However, the challenge remains to translate these broad priorities, as well as the Bank's detailed sector strategies, into an overarching vision for the World Bank Group. We urge the President to work closely with the Executive Board to ensure that the long-term strategy is finalized and implemented in a timely manner.

The Bank's strategic direction must be aligned with its core competencies and comparative advantages. On this, we would stress four key points:

- First, a challenge for the Bank going forward will be to implement its strategy in such a way that it has relevance at the country level. In particular, the Bank must strike a balance between its country-owned development strategy—which is absolutely critical for results on the ground—and the need to focus its support in areas where it has a comparative advantage. This will be particularly challenging as the Bank expands its role in global issues. For our part, shareholders need to recognize that the Bank has to be more selective in its efforts, focusing on the areas where it will have the greatest impact.
- Second, more needs to be done to ensure that donors coordinate efforts on the basis of a single country-led strategy. To this end, the Bank needs to continue to work on building partnerships with other donors and, particularly when it comes to fragile states, the UN system. This involves determining the best division of labour, and in this respect, the Bank should better define its strengths and weaknesses in relation to others. It is equally important that the institutions that make up the World Bank Group work together to support the overall objective of poverty reduction. In this vein, we are pleased with the US\$1.75-billion transfer from the International Finance Corporation (IFC) to help the International Development Association (IDA) increase its efforts with regard to private sector development, as developing a strong private sector is the key to sustained growth.



- Third, the Bank needs to give further consideration to innovative ways to mobilize and leverage private sector investment. This is particularly important as the Bank explores its role in the provision of global public goods, including in the areas of health and climate change. The magnitude of the financial challenge these issues present is beyond the scope of what governments can provide on their own, and we cannot expect to succeed unless that challenge is also taken up in the marketplace.
- Finally, delivering results is paramount. The collection of accurate, timely, useful statistics is essential to gaining an accurate understanding of progress achieved and the challenges that remain. As national capacity to gather and assess statistics is critical to our efforts to monitor results, we must continue to support the Bank's Statistical Capacity Building Program. Measuring for results presents an even greater challenge in the context of global public goods.

We would also like to take this opportunity to commend the Bank for important work in several areas.

Fragile states: The Bank's work in fragile states reinforces the work of bilateral donors, such as Canada and Ireland, in a number of countries, including Afghanistan, Haiti and Sudan. Its support for fragile states aptly integrates emerging best practices, including the provision of longer-term financial assistance through IDA15. The prospect of renewed cooperation with the UN system, based on a clear division of labour, is a welcome step. Canada and Ireland are major supporters of the Afghanistan Reconstruction Trust Fund (ARTF), and we believe it is a model of "best practice" for structuring and managing trust funds in post-conflict situations. We share a need to ensure that the ARTF's strong development results are not only achieved, but also better communicated to Afghans and external stakeholders.

IDA: We recognize the International Development Association's unique role in creating an enabling environment, or platform, which supports the successful delivery of other bilateral and vertical programs. Canada, Ireland and the Caribbean strongly support the Bank in its work to help the poorest countries. We consider contributions to IDA to be money well spent. In this regard, we welcome the recent commitments by the IFC and the International Bank for Reconstruction and Development (IBRD) to transfer US\$3.5 billion to IDA15. We look forward to the IDA Deputies' meeting to be held in Dublin, Ireland, next month and a successful IDA15 replenishment.

Small states: Efforts to advance the development agenda cannot overlook the particular challenges facing small states, particularly in the Caribbean region. The Caribbean Catastrophe Risk Insurance Facility Trust Fund and the Canada-Caribbean remittance corridor study are two important initiatives for this region. However, crime and violence has emerged as a major development issue, not just for this region but, as the recent UN-HABITAT report asserts, worldwide. The trend, particularly among male youth, is on the rise and undermines efforts to improve governance, investment climates and regional integration. The international community needs to take a fresh and deeper look at this issue.



Good Governance and Accountability

In redefining and focusing its strategic direction, the Bank must recognize that governance matters and it must evolve with changes in the international economy to ensure a legitimate and credible World Bank. Shareholders must begin a serious discussion on how to move this agenda forward, as well as a process with predefined timelines.

The issue of voice has been a long-standing concern at the World Bank, just as it has been at the International Monetary Fund (IMF). While there are links between the IMF and World Bank shareholding structures, discussions on World Bank reform must take into account differences in the ownership structures, as well as the differing roles played by these two institutions in the global community.

We are open to a package that would include at least a doubling of basic votes as a way of enhancing the voting power of the Bank's smallest and poorest members. However, to ensure that all developing members can benefit, we would also support proposals to introduce selective capital increases. It will be important to ensure that any adjustments to shareholdings continue to be primarily based on each member's weight in the global economy. Moreover, we must be sensitive to the need to preserve the IBRD's ability to borrow at the lowest interest rate spreads from international capital markets.

But voice and reform would benefit from a multifaceted approach that goes beyond basic votes and capital increases. We would be open to exploring ways to ensure that clear demonstrations of members' strong and consistent support to the Bank, such as through IDA contributions and other Official Development Assistance spending related to the Bank, are more fully recognized in the institution. In this respect, we would encourage developing countries to take up their full subscriptions to IDA. The institution also needs to review how best to attract qualified developing country candidates to senior management appointments. On this point, I would congratulate the Bank on its recent appointment of Ngozi Okonjo-Iweala as a Managing Director.

Strong Financial Stewardship

Underlying all of our efforts is the need for solid financial stewardship, which is essential to ensure a strong World Bank going forward. The Bank's business model must evolve if it is to continue to meet the demands of its members and provide services that effectively address a spectrum of development needs. To this end, I would urge consideration of a full review of the Bank's longer-term financial situation. This should be with a view to finding significant efficiencies, as well as a better understanding of the growing demands on net income and the potential to leverage Bank resources to meet development needs. Such a review should be treated as an important component of the Long-Term Strategic Exercise.



Annex 3

Communiqués of the International Monetary and Financial Committee of the Board of Governors of the IMF, 2007

Washington, DC

April 14, 2007

1. The International Monetary and Financial Committee held its fifteenth meeting in Washington, D.C. on April 14, 2007 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets-Outlook, Risks, and Policy Responses

2. The Committee welcomes the continued strong, broad-based expansion of the global economy. Growth is becoming regionally more balanced, and is expected to remain strong in 2007 and 2008. Global financial stability continues to be underpinned by solid economic foundations. Downside risks requiring continued vigilance arise from the possibility of a reassessment of risks in global financial market conditions, of a sharper-than-expected slowdown in the U.S. economy, and of a revival of inflationary pressures as output gaps close or if oil prices rebound. The risk to the global economy from a possible rise in protectionism and the substantial foregone growth should the Doha Round fail make trade policy a key medium-term concern. The Committee welcomes progress and continued focus, in IMF surveillance, on the agreed strategy for promoting an orderly unwinding of global imbalances over the medium term. The Committee encourages policies that allow countries to take advantage of financial globalization while containing vulnerabilities.

3. In the advanced economies, monetary policy needs to remain committed to maintaining price stability while taking account of the situation of different countries. Fiscal positions are strengthening, and now is a good time to further advance fiscal consolidation and the fundamental reforms that will help ensure fiscal sustainability in the long term. The focus should be on measures to ensure the viability of healthcare and pension systems in the face of population aging. Potential growth will be bolstered by reforms to enhance the capacity of labor to adapt to, and take full advantage of, globalization, complemented in many countries by further steps to enhance productivity and competition in product and services markets and further steps for free trade and market access.

4. Emerging market and other developing countries continue to perform strongly and are making progress in improving their resilience to possible turbulence in financial markets and volatility in commodity prices. To consolidate this performance and promote sustained growth that is broadly shared, continued efforts are needed to strengthen budgetary positions and improve debt management practices, entrench the credibility of monetary and fiscal policies, and ensure the sustainability of external positions. Advancing reforms to improve the functioning of domestic financial markets and enhance the business and investment environment remains a key medium-term priority. Among some surplus countries, there is a continued need to boost domestic demand and allow for greater exchange rate flexibility.

5. The Committee is particularly encouraged by the continued robust growth in low-income countries, including in Sub-Saharan Africa. The Committee calls on poor countries and donors to continue working in partnership to build on this strong performance so as to accelerate progress towards achieving the Millennium Development Goals (MDGs). Countries should persevere with sound macroeconomic policies and reforms to foster vibrant and diversified market-based economies.



The international community should support these countries' efforts with increased and more efficient aid, including through fulfilling the pledges made by donors to double aid to Sub-Saharan Africa by 2010. The Committee also stresses the importance of further trade liberalization and delivering Aid for Trade commitments. In this context, it looks forward to the early establishment of the enhanced Integrated Framework.

6. The Committee welcomes the report it has received from the Managing Director and the participants in the multilateral consultation on global imbalances launched following the Spring 2006 IMFC meeting. It agrees that resolving imbalances in a manner compatible with sustained global growth is a shared responsibility, and notes that the policy plans set out by the participants—China, the Euro area, Japan, Saudi Arabia, and the United States—represent further progress in the implementation of the strategy the Committee has previously set forth and endorsed. The Committee also notes the assessment by Fund staff that as these policies are implemented, they will make a significant contribution to reducing global imbalances. The Committee considers that the experience gained so far demonstrates that the multilateral consultation approach has been useful for addressing global issues through discussion and cooperation among members, and should prove to be a valuable instrument going forward for enhancing and deepening Fund surveillance. It looks forward to the Executive Board's review of the experience with the process and the conclusions of the first multilateral consultation and of the lessons for the future.

7. The Committee welcomes the resumption of the Doha Round trade negotiations, and calls on WTO members to work with a renewed commitment to urgently achieve an ambitious outcome. Benefiting from the report by WTO Director-General Pascal Lamy on the current status of the negotiations, the Committee looks for strong political leadership from those countries now playing a central role in the negotiations to forge the necessary breakthrough. The Committee emphasizes that all members stand to benefit from a Doha Development Round outcome that promotes growth and fosters economic development by reducing trade barriers and strengthening the multilateral trade system. The Committee considers it critically important to ensure that the benefits of globalization are widely shared and help reduce poverty and income disparities.

Implementation of the IMF's Medium-Term Strategy

8. The Committee welcomes the steps being taken to strengthen and modernize IMF surveillance to ensure its effectiveness as globalization deepens. The Committee calls on the Executive Board to continue to give priority to further work on all aspects of this reform, including updating the 1977 Decision on Surveillance over Exchange Rate Policies. The goal should be to improve the quality of surveillance, its focus, candor, and evenhandedness. In this context, ensuring a medium-term perspective and external stability is important. In this connection, the Committee looks forward to the discussion of the Independent Evaluation Office's (IEO) report on the Evaluation of the IMF's Advice on Exchange Rate Policy. The Committee, with a view to gaining broad support across the membership, agrees that the following principles should guide further work: first, there should be no new obligations, and dialogue and persuasion should remain key pillars of effective surveillance; second, it should pay due regard to country circumstances, and emphasize the need for evenhandedness; and third, it should retain flexibility to allow surveillance to continue evolving.



9. The Committee supports the efforts being made to strengthen the way financial sector, capital market, and exchange rate issues are addressed in surveillance, and to enhance the focus of surveillance on key risks facing members and on cross-country spillovers. It notes the effort of the Fund in enhancing the methodology for assessing the effectiveness of surveillance. The Committee welcomes the continuing work by the Board on independence and accountability in surveillance, as well as on a remit, which could provide a clear statement of surveillance priorities.

The Committee welcomes the priority being given by the Fund to enhancing and deepening the international community's understanding of financial stability issues, which will need to be an increasing focus of the Fund's surveillance. It looks forward to further steps by the Fund to promote dialogue on how financial markets and innovation can work to foster economic growth and financial stability, including possibly in the context of further multilateral consultations. The Committee looks forward to the review of streamlined Article IV consultations.

10. Recognizing the need for more predictable and stable sources of Fund income, the Committee expresses its gratitude to the Committee of Eminent Persons to Study Sustainable Long-Term Financing of the IMF for its report recommending a package of measures to better align the IMF's income with its diverse activities.¹⁸ The Committee considers that the report provides a sound basis for further work on the development of a new income model aimed at broadening its income base that can garner broad support across the membership. It looks forward to proposals on a new income model by the Managing Director for consideration by the Executive Board. The Committee underscores that ensuring a sustainable overall budgetary position to underpin the implementation of the IMF's medium-term strategy also requires action on the expenditure side. This now includes real spending reductions. The Committee welcomes the Fund's ongoing efforts to improve resource allocation and cost effectiveness in line with the priorities of the medium-term strategy. The Committee looks forward to a report on progress on expenditure issues.

11. The Committee reiterates the importance of implementing the program of quota and voice reforms adopted by the Board of Governors in Singapore, in line with the timetable set out in the Resolution. It welcomes the broad consensus reached in the Executive Board on the legal framework of an amendment of the Articles of Agreement regarding basic votes. The Committee welcomes the initial informal Board discussions on a new quota formula and stresses the importance of agreeing on a new formula, which should be simple and transparent and should capture members' relative positions in the world economy. This reform would result in higher shares for dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. The Committee also stresses the importance of enhancing the voice and participation of low-income countries, a key mechanism for which is an increase in basic votes, at a minimum preserving the voting share of low-income countries. The Committee calls on the Executive Board to continue its work on the reform package as a matter of priority.

12. The Committee attaches high importance to further steps by the IMF to strengthen its engagement with emerging market economies. The Committee welcomes the recent progress made in clarifying some key aspects of the design of a new liquidity instrument for market access countries. It calls on the IMF to accelerate its work on addressing the design challenges in developing an instrument that would enhance IMF support to these countries' own strong policies and ensure that

¹⁸ The Committee of Eminent Persons was chaired by Andrew Crockett, and included Hamad Al-Sayari, Mohamed El-Erian, Alan Greenspan, Tito Mboweni, Guillermo Ortiz, Jean-Claude Trichet, and Zhou Xiaochuan.



substantial and timely financing will be available if needed, while safeguarding IMF resources and paying due regard to the interaction with existing IMF facilities.

13. The Committee looks forward to progress on steps to assist members to deepen financial sectors, including local capital markets. It also looks forward to a review of the Fund's policy on lending into arrears. The Board should also conclude its review of charges for Fund financial assistance and its maturity structure.

14. The Committee stresses that the IMF should remain fully engaged with its low-income members in helping them achieve macroeconomic stability supportive to sustainable growth, critical to the achievement of the MDGs. This includes well-designed financial and policy support in the context of surveillance, Fund arrangements, and technical assistance. The Committee calls for continued efforts to help countries reap the benefits of higher aid and debt relief, and avoid a new build-up of unsustainable debt. The Committee welcomes the recent enhancements to the debt sustainability framework for low-income countries. It urges all creditors and borrowers to work with the World Bank and the IMF to use the framework as a tool for fostering coherent and responsible lending practices, identifying emerging debt-related vulnerabilities, and elaborating country-owned debt strategies. The Committee looks forward to further work on the IMF's role in the poverty reduction strategy process and its collaboration with donors.

15. The Committee expresses its gratitude for the work of the members of the External Review Committee on IMF-World Bank Collaboration.¹⁹ The Committee welcomes the report's message that a culture of close cooperation between the IMF and the World Bank, taking into account each institution's comparative advantages, respective mandate and responsibilities, is key to delivering services to members more effectively and efficiently. The Committee looks forward to proposals from the two institutions to strengthen collaboration.

Other Issues

16. The Committee calls for closer cooperation between the IMF and Financial Action Task Force in promoting stronger implementation of international anti-money laundering and combating terrorist financing (AML/CFT) standards and encourages publication of comprehensive country evaluations.

17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement for a special one-time allocation of SDRs.

18. The Committee values highly the contribution of the IEO to the learning culture of the IMF and to facilitating oversight and governance. It welcomes the evaluation of the IMF and Aid to Sub-Saharan Africa, and the steps being taken to ensure that the IEO recommendations endorsed by the Executive Board are effectively internalized in the work of the IMF.

19. The Committee expresses its appreciation of the work of Agustín Carstens as Deputy Managing Director, and wishes him success in his new responsibilities as Secretary of Finance and Public Credit of Mexico and Chairman of the Development Committee.

20. The next meeting of the IMFC will be held in Washington, D.C. on October 20, 2007.

¹⁹ The external Review Committee was chaired by Pedro Malan, and included Michael Callaghan, Caio Koch-Weser, William McDonough, Sri Mulyani Indrawati, and Ngozi Okonjo-Iweala.



Washington, DC October 20, 2007

1. The International Monetary and Financial Committee held its sixteenth meeting in Washington, D.C. on October 20, 2007 under the Chairmanship of Mr. Tommaso Padoa-Schioppa, the Minister of Economy and Finance of Italy. The Committee welcomes Mr. Padoa-Schioppa, the new IMFC Chairman; it expresses its deep gratitude to Mr. Gordon Brown for his invaluable contributions to the work of the Committee and the Fund throughout the eight years of his Chairmanship of the Committee, and extends its best wishes.

The Global Economy and Financial Markets-Outlook, Risks, and Policy Responses

2. The Committee welcomes the strong global growth in the first half of 2007. It notes that the global economy continues to be underpinned by strong fundamentals and the robust growth of emerging market and other developing economies. Recent disturbances in financial markets in advanced economies are expected to have a moderating effect on growth in the near term, and downside risks to the outlook have increased. The Committee underscores the importance of sound macroeconomic policies in the medium term and continued vigilance to maintain well-functioning financial markets and to strengthen the foundations for sustained high growth. The Committee notes with satisfaction the resilience of emerging market and other developing economies in the face of recent financial market turbulence.

3. Central banks in advanced economies have been playing a critical role in ensuring the smooth functioning of money markets by providing necessary liquidity while remaining watchful that financial markets continue to operate effectively. At the same time, monetary policy should focus on achieving price stability while continuing to assess carefully the inflation outlook, taking into account both the inflationary pressures stemming from tight commodity markets and rising oil and food prices, and downside risks to growth.

4. Ministers and central bank governors had a useful discussion today on the lessons emerging from the current episode of financial market turbulence, and are committed to continuing to work together, including multilaterally, to analyze the nature of the disturbances and consider lessons to be learned and actions needed to prevent further turbulence. The Committee agrees that financial innovation and securitization, while having contributed to enhanced risk diversification and improved market efficiency, have also created some new challenges that need to be properly addressed.

5. The Committee stresses that national authorities, standard-setting bodies, the Financial Stability Forum, the Bank for International Settlements, and the IMF, working together in line with their respective mandates, have complementary roles to play in analyzing financial stability issues, helping to identify and address information gaps and providing fora for discussions and actions. Areas to be addressed include: risk management practices related to complex structured products; valuation and accounting for off-balance sheet instruments, especially in times of stress; clarifying the treatment of complex products by ratings agencies; addressing basic principles of prudential oversight for regulated financial entities; and liquidity management. The Committee will take stock of the work undertaken at its next meeting.

6. The Committee welcomes the progress being made in prioritizing financial sector issues in the IMF's work. It calls for continued efforts to broaden and deepen the IMF's financial expertise to identify future issues, and to better integrate the findings of the IMF's multilateral surveillance in its



regional and bilateral surveillance. The Committee also notes the growing importance of Sovereign Wealth Funds in international financial markets. While recognizing their positive role in enhancing market liquidity and financial resource allocation, the Committee welcomes the work by the IMF to analyze issues for investors and recipients of such flows, including a dialogue on identifying best practices. It stresses the importance of resisting protectionism and maintaining an open global financial system.

7. The Committee underlines the importance of further action to strengthen the foundations for sustained high growth over the medium term. Many countries need to pursue ambitious medium-term fiscal consolidation plans to address pressures on social spending arising from population aging. Structural reforms to take full advantage of the opportunities provided by globalization and technological advances should include further liberalization of service sectors in advanced economies, as well as further actions to improve infrastructure and the business environment and develop a sound financial sector in emerging market and other developing countries. To address growing income disparities, the Committee stresses the importance of strengthening education, creating jobs in the most dynamic sectors, pursuing well-designed tax policies, and providing adequate safety nets. Further trade opening, improved access to markets, and fulfillment of aid commitments by donors will be key to sustaining their robust growth performance.

8. The Committee calls for sustained implementation of the policy plans reaffirmed at the Spring 2007 IMFC meeting by the participants in the multilateral consultation on global imbalances. It reiterates that an orderly unwinding of global imbalances, while sustaining global growth, is a shared responsibility involving: steps to boost national saving in the United States, including continued fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms and fiscal consolidation in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil-producing countries.

9. The Committee expresses concern with the continued lack of progress with the Doha multilateral trade round, and urges WTO members to work toward a prompt and ambitious conclusion of the Doha Round trade negotiations launched in 2001 as a development round.

Implementation of the IMF's Medium-Term Strategy: Priorities Ahead

10. The Committee stresses the critical importance of the implementation of the program of quota and voice reforms adopted by the Board of Governors in Singapore. The Committee welcomes the report of the Executive Board to the Board of Governors, takes note of the progress made on several elements of the program, and urges the Executive Board to continue working to achieve an agreement within the timetable and objectives set forth in the Singapore Resolution. In particular, the Committee supports the inclusion of GDP in the new formula as the most important variable. It also considers that PPP-GDP should play a role, along with a compression factor. The Committee stresses that the total quota increase should be of the order of ten percent, with at least a doubling of basic votes. The Committee reiterates that the reform should enhance the representation of dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. An outcome of the second round of reforms should be a further increase in the voting share of emerging market and developing economies as a whole. The Committee also stresses the importance of enhancing the voice and representation of low-income countries. The Committee encourages the Executive Board to continue its work in order to allow agreement on all the elements of the package by Spring 2008.



11. The Committee recognizes the need for more predictable and stable sources of Fund income to finance its diverse activities. It welcomes the progress made in developing operational guidelines to implement the recommendations of the Committee of Eminent Persons chaired by Mr. Andrew Crockett. The Committee notes that both income and expenditure will need to contribute to putting the Fund's finances on a sustainable footing. While welcoming the Fund's ongoing efforts to reduce administrative expenditures, the Committee sees the need for greater efficiency and saving through Fund-wide priority setting. This should be achieved within a new medium-term budget envelope, while preserving the effectiveness of the Fund in fulfilling its core mandate.

The Committee therefore calls on the Executive Board to develop specific proposals on the new income model and the new expenditure framework by the time of the 2008 Spring meeting, and to agree on a new and detailed medium-term budgetary envelope for the FY 2009 budget that is consistent with the emerging income and expenditure framework.

12. The Committee welcomes the progress on strengthening IMF surveillance, including: the adoption of the Bilateral Surveillance Decision in June 2007; the agreement in principle on the adoption by the Executive Board of a statement of surveillance priorities in the context of the 2008 Triennial Surveillance Review, to guide the Fund's surveillance work and enhance accountability; and the ongoing integration of financial sector issues into macroeconomic analysis and bilateral surveillance. Evenhanded implementation of the new Decision is an essential element of the Medium-Term Strategy. The Committee looks forward to review the progress and experiences in these areas, as well as the upcoming review of experience with streamlined Article IV consultations.

13. The Committee supports the priority being given in the Fund's policy advice to emerging market economies in working with them on the timely identification of vulnerabilities, the strengthening of debt management practices and deepening of local capital markets, and the design of policy responses in the face of large capital inflows. The Committee notes the work undertaken in designing a new liquidity instrument to help countries' crisis prevention efforts, while providing adequate safeguards to Fund resources. While there has been support on key elements of such an instrument, concerns regarding potential demand for it and important design features still need to be resolved. The Committee calls on the Executive Board to continue its work on the instrument's design, paying due regard to the interaction with existing IMF facilities and to the views of potential users. The Committee looks forward to the follow-up on the review of charges and maturities for Fund financial assistance, and to the review of the Fund's policy on lending into arrears.

14. The Committee welcomes the progress on clarifying the role of the Fund in low-income countries. This includes well-designed financial and policy support in the context of surveillance, Fund arrangements, and technical assistance. The Committee looks forward to a comprehensive operational framework, which will draw together the various strands of the Fund's work in low-income countries with a view to enhancing the focus and effectiveness of the Fund's engagement with these countries. The Committee stresses the importance of delivering aid for trade commitments and encourages ongoing initiatives by the WTO and other institutions to enhance aid for trade and improve its coordination and delivery. The Committee attaches high priority to helping countries reap the benefits of higher aid and debt relief, while avoiding a new build-up of unsustainable debt. The Committee welcomes recent initiatives to help low-income countries build on the debt sustainability framework to design medium-term debt strategies, as well as efforts to foster sustainable lending. It calls on all creditors and borrowers to use the framework as a key tool for adhering to responsible and transparent lending practices. The Committee urges full participation by all official bilateral and commercial creditors in the HIPC Initiative; it expresses concern about growing litigation against HIPCs, which



presents a major challenge to the implementation of the Initiative. The Committee looks forward to urgent progress on financing assurances by member countries to allow Liberia to benefit from debt relief. The IMF is prepared to consider other similar cases in due course.

15. The Committee welcomes the Joint Management Action Plan on Bank-Fund collaboration, which will foster closer and more efficient cooperation and clear delineation of responsibilities between the Bank and the Fund, including in their work on low-income countries.

Other Issues

16. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement for a special one-time allocation of SDRs.

17. The Committee values highly the contribution of the IEO to the learning culture of the IMF and to facilitating oversight and governance. It welcomes that the enhanced framework for implementing the IEO recommendations endorsed by the Executive Board is now fully operational.

18. The Committee pays tribute to Mr. Rodrigo de Rato for his skillful and strategic leadership as Managing Director of the International Monetary Fund. As architect of the Fund's Medium-Term Strategy, he has positioned the Fund well to meet the challenges of a rapidly evolving global economy. Mr. de Rato deepened the integration of financial sector issues in the Fund's work and launched a bold reform to strengthen the voice and representation of low-income and emerging market countries in the Fund. He brought clarity to the role of the Fund in its bilateral surveillance and successfully introduced the new multilateral consultation instrument. Mr. de Rato's persuasiveness in convincing the membership of the need for a new income model for the Fund has been instrumental in launching a strategic reflection on the Fund's income and expenditure that will help ensure the Fund's financial sustainability in the new international environment. The Committee wishes to express its thanks to Mr. de Rato for his dedication and vision, which have helped set the Fund on a strong and positive path to the future.

19. The Committee warmly welcomes the appointment of Mr. Dominique Strauss-Kahn as the new Managing Director, and looks forward to working closely with him in meeting the challenges ahead.

20. The next meeting of the IMFC will be held in Washington, D.C. on April 12, 2008.



Annex 4

Communiqués of the Development Committee of the Boards of Governors of the World Bank and IMF, 2007

Washington, DC

April 15, 2007

1. We met today to review progress on actions, resources and policies needed to accelerate progress towards the Millennium Development Goals (MDGs), drawing on data and analysis in the fourth annual Global Monitoring Report (GMR). We also reviewed the World Bank Group's Africa Action Plan, and a report on the evolving Aid Architecture.

2. We welcomed the progress being made in reducing income poverty, reflecting both the continued strong growth of the global economy and the impact of improved country policies and institutions. However, progress towards the MDGs has been uneven across countries and sectors. A lot of challenges remain and much more needs to be done.

3. We noted that total Official Development Assistance (ODA) flows have grown in real term over the past decade. A significant part of this increase reflects debt relief, which is making important contributions to country-level financial resources and progress. However, there is a concern that total ODA actually declined in real terms in 2006. The pledges made in 2005 to double aid for Africa by 2010 have not yet been translated into increased total donor resources for programs on the ground. We reiterated our call to those donors who have not done so to make concrete efforts towards the target of 0.7 percent of Gross National Income as ODA in accordance with their commitments. Consistent with the Monterrey Consensus and donor commitments, we called for renewed efforts at scaling-up financing to support sound country-owned programs for the achievement of the MDGs. In this context, we look forward to a successful 15th replenishment of the International Development Association (IDA), including dollar for dollar replenishment of lost credit flows due to the Multilateral Debt Relief Initiative (MDRI) and the HIPC Initiative. As financial flows increase, it will be important to maintain debt sustainability. We encouraged the Bank and the Fund to report regularly on the extent of full creditor participation in HIPC and delivery of donor commitments to financing the full cost of debt relief. We urged debtors and creditors to use the Bank-Fund debt sustainability framework to guide their decisions. We also urged the Bank and the Fund to intensify their efforts to enhance creditor coordination around the debt sustainability framework, and to support borrowers in building debt management capacity and in devising and implementing sound external finance strategies.

4. We welcomed new and emerging public and private sources of aid that bring more resources to help poor countries reach their MDGs. At the same time, we noted the increasing risks of aid fragmentation and earmarking of aid leading to higher transaction costs for recipients and reduced aid effectiveness. We therefore emphasized the importance of the country-owned approach to development, which provides an essential platform for aligning multiple sources of development finance, including global programs, with national priorities and country systems. We reiterated the importance of reinforcing donor coordination, including between traditional and emerging donors, as well as enhancing efforts to ensure aid effectiveness, and progress in implementing the Paris Declaration.



We look forward to follow-up work on the Bank's role in the international aid architecture, focusing on how best the Bank Group can add value by playing a strategic or supportive role, including through partnerships, at country, regional and global levels. In this context, we welcomed the Bank management's decision to launch a review of the Bank Group's long term strategy to assure it is best positioned to effectively meet the needs of the world's poor. We also look forward to receiving a report on the Bank's progress in developing a framework for its role in delivery of global and regional public goods including criteria for its involvement and financing modalities.

5. There are encouraging signs in current efforts to meet the human development MDGs, including major increases in primary school completion and vaccination coverage. In this respect, we welcomed the recent launch of the Advance Market Commitments initiative. Yet only a few countries are on track to meet the MDG for reducing child mortality, and in all regions some countries are off track on reducing childhood malnutrition and maternal mortality. We called for further reinforcement of country, donor and MDB efforts targeting the MDGs' quantitative goals in health and education, including for the prevention and treatment of HIV/AIDS, malaria and tuberculosis. We also stressed the need for heightened attention to universal access to reproductive health services and to improving and monitoring the quality of education and health services. We appreciated the Bank's continuing support to the Education for All - Fast Track Initiative, but recognized that more support is needed to finance national education plans. We encouraged the Bank and other donors to play their part.

6. Gender equality and the empowerment of women are important not only for achieving gender-specific aspects of the MDGs (such as progress on gender equality in school enrollments and literacy, and the share of women in non-agricultural employment and national parliaments), but also for the attainment of the MDGs as a whole. We welcomed the progress many countries have made on girls' school enrollment, while noting that there is still much to be done in many countries. We noted that progress in the social sectors has not, in general, been matched by comparable advances in the productive sectors. We called for full and rapid implementation of the Bank's Gender Action Plan, focusing on areas where it has comparative advantage, including scaling up support for economic empowerment of women. We emphasized the need for further gender mainstreaming in Bank operations using a country based approach, and for the integration of gender aspects into the Bank's results framework. We also called for improvements in the statistical basis for monitoring progress, working closely with the UN and other agencies.

7. Fragile states, defined by the weakness of their institutions and governance, and frequently associated with recent conflicts, account for 9 percent of the population of developing countries but about 27 percent of the extreme poor. They are the countries least likely to achieve the MDGs. Yet several countries have shown that it is possible to transition from weak institutions and the legacy of conflict to sustained gains in growth and poverty reduction. We encouraged the International Financial Institutions (IFIs), working in partnership with the UN and other donors, to review their policies, procedures and incentives, including the development of a comprehensive framework for the settlement of protracted arrears cases. Collective efforts are also needed to formulate, in a coherent and harmonized manner, tailored strategies that pay attention to timely, well-sequenced interventions that build capable, accountable and responsive states, reflecting each actor's comparative advantage. In this context, we called for effective and expeditious implementation of the measures recently approved by the Bank's Board to strengthen the Bank's rapid response and long-term engagement in fragile states.



8. We reviewed the implementation of the Africa Action Plan (AAP) and the proposed revisions to the Plan. While welcoming indications that the overall implementation of the Plan has been progressing relatively satisfactorily, we broadly supported the proposed modifications to the AAP, which promise to increase selectivity and sharpen the focus on results. At the same time, we emphasized the continued relevance we attach to the original strategic goals of the AAP, including support for African countries' efforts to accelerate pro-poor growth and maximize achievement of the MDGs. We stressed that the Bank's support should continue to be determined by countries' own plans and that implementation of the AAP should not leave any countries behind or undermine agreed resource allocation systems. We also called for the Bank to make greater use of outcome indicators to measure progress and results. We strongly endorsed the AAP's strategy for mobilizing additional development partner resources, including from non-OECD/DAC and private donors, in a coordinated way, consistent with the Paris Declaration.

9. We noted the importance of trade as a driver of growth and poverty reduction and expressed our continued hope for a breakthrough in the Doha Development Round negotiations. We agreed that there is much at stake for all member countries and we recognized that failure to seize the current opportunity could come at considerable cost to the global economy and in particular, to developing countries. We called upon all parties to demonstrate the flexibility needed to achieve a successful outcome. To complement trade reforms and assist developing countries in fully exploiting existing and new trade opportunities, we look to the Fund and, particularly, the Bank for leadership in further strengthening the mechanisms for Aid for Trade and accelerating its implementation.

10. We welcomed the report of the Executive Directors of the World Bank and the accompanying paper entitled "Strengthening Bank Group Engagement on Governance and Anticorruption (GAC)." We expressed our appreciation for the Bank's response to our guidance, including the extensive consultations that contributed to the revised strategy. We endorsed the strategy's principles of transparency, predictability, consistency and equity of treatment across member countries. Effective implementation, including further development of actionable and disaggregated indicators, will now be critical to achieving the GAC strategy's desired results. In this context, we welcomed the agreed Board engagement and oversight during implementation.

11. We noted the progress made in implementing the World Bank Group's Strategy for Engagement with IBRD Partner Countries. We look forward to receiving a full report on implementation of all the elements of the strategy at our next meeting.

12. We noted the progress made with the Clean Energy for Development Investment Framework. Lack of access to energy is an acute problem in many low income countries. We welcomed the World Bank Group's Action Plan and generally endorsed the activities contained there. We look forward to receiving a progress report by our next meeting. In particular, we look forward to seeing progress on: (i) additional financing and implementation of the energy access agenda in Sub-Saharan Africa; (ii) application and further development of existing financial instruments to promote the transition to a low carbon economy, including increased support for cost effective, affordable, efficient and renewable energy; (iii) mainstreaming considerations of climate variability and change into development projects; (iv) consultation and collaboration with the private sector; and (v) an action plan for strengthened collaboration with the Regional Development Banks.



13. We took note of the Bank’s analysis of “Fiscal Policy for Growth and Development” and encouraged the Bank to develop and operationalize growth-oriented, country-specific approaches to fiscal policy design. We endorsed the need for effective Bank-Fund collaboration to ensure consistent policy advice to member countries. We concurred with the conclusion that countries will need assistance to strengthen fiscal institutions, which are key to effective policy.

14. We welcomed the “Options Paper on Voice and Representation,” setting out a comprehensive range of options for enhancing the voice of developing and transition countries in the Bank’s decision-making framework, which we note is key to strengthening the credibility and legitimacy of the institution. We recognized that further consultations are necessary to reach a political consensus and expect the Bank to continue carrying out technical work to assist such consultations. We look forward to a report from the Bank by our next meeting.

15. We thanked the External Review Committee for its report on Bank-Fund collaboration. We look forward to hearing from the two institutions about concrete proposals to foster a culture of collaboration.

16. We have to ensure that the Bank can effectively carry out its mandate and maintain its credibility and reputation as well as the motivation of its staff. The current situation is of great concern to all of us. We endorse the Board’s actions in looking into this matter and we asked it to complete its work. We expect the Bank to adhere to a high standard of internal governance.

17. We welcomed Minister Agustín Carstens as the new Chairman of the Committee. We expressed appreciation for the service of the former Chairman, Alberto Carrasquilla.

18. The Committee’s next meeting is scheduled for October 21, 2007 in Washington, DC.



Washington, DC October 21, 2007

1. We met today in Washington, DC on Sunday, October 21, 2007.
2. We welcomed the opportunity to discuss the future strategic direction of the World Bank Group, and thanked the President for his presentation. We recognized the potential of the goal of inclusive and sustainable globalization to guide the Bank mission of promoting economic growth and reducing poverty, including helping countries attain the Millennium Development Goals (MDGs). We welcomed the President's commitment to develop and refine the strategic framework in a consultative manner under the guidance of the Bank Board, and looked forward to reviewing progress at our next meeting. We emphasized the importance of efforts to strengthen synergy among the Bank Group institutions, building upon their respective areas of competence.
3. We agreed that strengthened support for the inclusion and empowerment of the poorest in development, especially in Sub-Saharan Africa, and for active engagement by the Bank Group in fragile and conflict-affected states, must be key elements in the strategic framework. We also noted that gender equality and women's rights are crucial for sustainable poverty reduction. The Bank Group must also ensure its continued relevance to the needs and demands of Middle Income Country members. We welcomed progress in implementing the framework for partnership with IBRD clients, and the recent simplification and reduction in IBRD pricing. We urged the Bank to make further progress in reducing the non-financial cost of doing business, including enhancing the use of country systems where appropriate.
4. We welcomed the report on the Bank Group's role in Global Public Goods (GPGs) and its emphasis on integrating the GPG agenda into country-owned programs at country and regional levels. We stressed the importance of the Bank responding to global challenges, while exercising selectivity, focusing on its comparative advantage, filling institutional gaps and cooperating closely with other international institutions. We underlined the importance of innovative financing mechanisms. We also encouraged the Bank to further strengthen its work as a knowledge-broker on development policy.
5. We welcomed the recent adoption of strategies on health and the financial sector. We emphasized the importance of successful implementation of the governance and anti-corruption strategy.
6. We welcomed the progress made by many low-income countries in strengthening development strategies and implementing policy and institutional reforms, and noted that many countries have enhanced their capacity to absorb larger amounts of aid productively. We emphasized the need to sharpen the focus of poverty reduction strategies on stronger, shared, private sector-led growth, to link these strategies better to budgetary frameworks, and to implement them effectively. We reaffirmed the importance of the country-based model, founded on strong country ownership, which is crucial for improving aid effectiveness and harmonization.
7. We called on donors to meet their respective commitments to scale up aid for development, improve aid predictability and address financing gaps for meeting the MDGs. We reiterated our call to those donors who have not done so to make concrete efforts towards the target of 0.7% of gross national income as Overseas Development Assistance in accordance with their commitments. We noted that emerging new donors and creditors bring much-needed resources and development knowledge, while underscoring that the effectiveness of these resources will depend on their alignment with country priorities, as well as creditors' commitment to the debt sustainability framework. We encouraged wider implementation of the Results, Resources, and Partnership approach. We underlined the need for a strong IDA15 replenishment to enable IDA to play its crucial platform role in the evolving aid architecture. We welcomed the very substantial contribution to IDA from IBRD and IFC earnings, and the proposed enhanced collaboration between IFC and IDA on private sector development.



8. We noted that global economic growth remains strong and the direct impact of recent financial market turbulence on developing countries has been limited. We urged governments to continue implementing policies supporting economic resilience, and urged the Bank and the Fund to support and monitor those efforts.
9. We welcomed progress in implementing the Bank's Clean Energy Investment Framework. We recognized the critical importance of energy access for growth. We asked the Bank Group to increase its support for access to modern, cost-effective, clean energy, especially among the poorest and in Sub-Saharan Africa. We also called for expanded work on energy efficiency and renewable energy, and facilitation of the development and dissemination of related knowledge and technology.
10. Bearing in mind the scale of the challenge of addressing the causes and impacts of climate change, we called on Bank management to develop a strategic framework for Bank Group engagement, including support for developing countries' efforts to adapt to climate change and to achieve low-carbon growth while reducing poverty. In this connection, we urged the Bank Group to enhance cooperation and harmonization with other development partners, based on comparative advantages, and to help catalyze substantial additional resources from both public and private sources, including concessional finance as appropriate (e.g., Global Environment Facility). We welcomed the focus on environmental sustainability in the 2008 Global Monitoring Report.
11. We noted the progress in implementing the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), and stressed the need for all creditors to participate on an equitable basis, including non-Paris club and commercial creditors. We stressed the importance of providing dollar for dollar compensation for lost credit reflows due to the MDRI and HIPC initiatives, as agreed. We observed that, improved debt burden indicators notwithstanding, the risk of debt distress in many HIPCs remains a challenge to their long-term debt sustainability. In this regard, we emphasized the importance of sound lending and borrowing decisions guided by the Bank-Fund Joint Debt Sustainability Framework (DSF), and the strengthening of public debt management, for preventing unsustainable accumulation of debt by HIPCs. We welcomed the efforts of the OECD Export Credit Group to develop sustainable lending guidelines embodying the DSF.
12. We reiterated our strong support for intensified efforts to agree on an ambitious pro-development Doha Round. We stressed the need to integrate trade and competitiveness within national development strategies, while stepping up support for Aid for Trade, as proposed by the Bank and Fund.
13. We welcomed the Options Paper on Voice and Participation. We recognized that further consultations among shareholders will be necessary to reach a political consensus on a comprehensive package and look forward to a timely report on the progress achieved.
14. We are encouraged that the World Bank Board, together with management, is continuing to review and reform key aspects of the Bank's governance.
15. We took note of the Joint Management Action Plan prepared by the World Bank and the Fund as a follow up to the report of the External Review Committee on Bank-Fund Collaboration.
16. We welcomed Robert B. Zoellick on his appointment as World Bank President and look forward to working with him. We thanked Paul Wolfowitz for his contribution to the work of the World Bank. We expressed our deep appreciation for the leadership of Rodrigo de Rato at the IMF, and welcomed the selection of Dominique Strauss-Kahn as his successor.
17. The Committee's next meeting is scheduled for April 13, 2008 in Washington, DC.



Annex 5

Operational Highlights and Key Financial Indicators of the IMF in Fiscal Year 2007

International Monetary Fund

The flow of IMF repurchases and repayments were larger than the flow of disbursements in FY2006 and FY2007. However, the gap between the two figures is smaller, reflecting both a slight increase in disbursements, and repurchase and repayment by several member countries in FY2006.

IMF Resource Flows as of April 30

(millions of SDRs)

	FY2006	FY2007
Purchases	2,156	2,329
PRGF loans	403	477
Total disbursements	2,559	2,806
Repurchases	32,783	14,166
PRGF repayments	3,208	512
Total repurchases and repayments	35,991	14,678

Note: Numbers may not add due to rounding.

Outstanding credits decreased substantially from FY2006 to FY2007, primarily due to reductions in the purchase (use by members) of Stand-By Arrangements and Extended Arrangements.

Outstanding Credit by Facility and Policy as of April 30

(millions of SDRs)

	FY2006	FY2007
Stand-By Arrangements	11,666	6,537
Extended Arrangements	7,477	717
Supplemental Reserve Facility	–	–
Compensatory and Contingency Financing Facility	84	79
Systemic Transformation Facility	–	–
Subtotal, General Resources Account	19,227	7,333
SAF arrangements	9	9
PRGF arrangements	3,819	3,785
Trust Fund	89	89
Total	23,144	11,216

Note: Numbers may not add due to rounding.

Please see the IMF 2007 Annual Report for detailed data regarding the policies and finances of the IMF. All data referenced in this annex can be found in the Appendices of the IMF 2007 Annual Report.



Annex 6

Active IMF Lending Arrangements—as of December 31, 2007

(in millions of SDRs)

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
Stand-by Arrangements—Total			7,906.3	3,121.5
Dominican Republic	January 31, 2005	January 30, 2008	437.8	77.0
Gabon	May 7, 2007	May 6, 2010	77.1	77.1
Iraq	December 19, 2007	March 18, 2009	475.3	475.3
Macedonia, former Yugoslav Republic of	August 31, 2005	August 30, 2008	51.6	41.1
Paraguay	May 31, 2006	August 31, 2008	30.0	30.0
Peru	January 26, 2007	February 28, 2009	172.3	172.3
Turkey	May 11, 2005	May 10, 2008	6,662.0	2,248.4
Extended Fund Facility Arrangements—Total			8.5	3.6
Albania	February 1, 2006	January 31, 2009	8.5	3.6
Poverty Reduction and Growth Facility—Total			844.3	440.7
Afghanistan, Islamic Republic of	June 26, 2006	June 25, 2009	81.0	45.2
Albania	February 1, 2006	January 31, 2009	8.5	3.6
Armenia, Republic of	May 25, 2005	May 24, 2008	23.0	3.3
Benin	August 5, 2005	August 4, 2008	6.1	3.5
Burkina Faso	April 23, 2007	April 22, 2010	6.0	5.5
Burundi	January 23, 2004	January 22, 2008	69.3	7.1
Cameroon	October 24, 2005	October 23, 2008	18.5	7.9
Central African Republic	December 22, 2006	December 21, 2009	36.2	15.5
Chad	February 16, 2005	February 15, 2008	25.2	21.0
Congo, Republic of	December 6, 2004	June 5, 2008	54.9	31.4
Gambia, The	February 21, 2007	February 20, 2010	14.0	10.0
Grenada	April 17, 2006	April 16, 2009	10.5	8.9
Guinea	December 21, 2007	December 20, 2010	48.1	41.3
Haiti	November 20, 2006	November 19, 2009	73.7	38.0
Kyrgyz Republic	March 15, 2005	May 31, 2008	8.8	1.2
Madagascar	July 21, 2006	July 20, 2009	54.9	39.2
Malawi	August 5, 2005	August 4, 2008	38.1	16.2
Mauritania	December 18, 2006	December 17, 2009	16.1	7.7
Moldova, Republic of	May 5, 2006	May 4, 2009	110.8	45.7
Nicaragua	October 5, 2007	October 4, 2010	71.5	59.6
Niger	January 31, 2005	May 31, 2008	26.3	0.9
Rwanda	June 12, 2006	June 11, 2009	8.0	4.5
São Tomé and Príncipe	August 1, 2005	July 31, 2008	2.9	0.8
Sierra Leone	May 10, 2006	May 9, 2009	31.1	22.0
Grand total			8,759.1	3565.8

Note: Numbers may not add due to rounding.

Source: www.imf.org/external/fin.htm



Annex 7

Operational Highlights and Key Financial Indicators of the World Bank Group in Fiscal Year 2007

Operational highlights and key financial indicators for World Bank Group associations are summarized in the following table. IBRD lending commitments to member countries were \$12.8 billion in FY2007, reflecting a decrease of \$1.3 billion from FY2006 levels of \$14.1 billion. Comparatively, IDA lending reached a record high at \$11.9 billion for 189 projects—a 25 per cent increase in dollar terms from FY2006. The IFC invested over \$8 billion in FY2007, about a third of these investments went to frontier and IDA countries. Commitments approved by the MIGA Board of Directors amounted to \$1.9 billion, and fiscal-year guarantees issued were up approximately 5 per cent in FY2007 compared to FY2006.

World Bank institutions continued to maintain strong financial positions in FY2007. The IBRD maintained its FY2006 return on average assets level of 0.8 per cent in FY2007. The IFC continued to grow and posted a strong return on investment of 6.4 per cent in FY2007; this was up from 3.6 per cent in FY2006. MIGA return on operating capital before provisions was up significantly from FY2006 at 6.1 per cent in FY2007.

International Bank for Reconstruction and Development

(millions of US dollars)

	FY2006	FY2007
Administrative expenses	1,055	1,236
Operating income	1,740	1,659
Total assets	212,326	208,030
Cumulative commitments	420,200	433,000
Fiscal-year commitments	14,135	12,800
Number of projects	112	112
Gross disbursements	11,833	11,055
Principal repayments including prepayments	13,600	17,231
Net disbursements	(1,767)	(6,176)
Return on average assets (per cent)	0.8	0.8
Equity-to-loans ration (per cent)	33	35

International Development Association

(millions of US dollars)

	FY2006	FY2007
Administrative expenses	954	976
Operating income (loss)	(2,043)	(2,075)
Total applications of development resources	102,871	111,330
Cumulative commitments	170,000	181,000
Fiscal-year commitments	9,506	11,867
Number of projects	167	189
Gross disbursements	8,910	8,579
Principal repayments	1,680	1,753
Net disbursements	7,230	6,826



International Finance Corporation

(millions of US dollars)

	FY2006	FY2007
Administrative expenses	436	482
Operating income (loss)	1,409	2,611
Total assets	38,420	40,550
Committed portfolio	21,600	25,400
Fiscal-year commitments	6,700	8,200
Number of projects	284	299
Loan and equity investments, net	12,731	15,812
Return on average assets (per cent)	3.6	6.4
Debt-to-equity ratio	1.5	

Multilateral Investment Guarantee Agency

(millions of US dollars)

	FY2006	FY2007
Administrative and other expenses	31.3	30.1
Operating income	17.2	49
Total assets	1,282	1,136
Statutory underwriting capacity	10,216	10,570
Cumulative guarantees issued	16,000	17,400
Fiscal-year guarantees issued	1,302	1,368
Number of projects	41	
Net exposure	3,310	3,209
Operating capital/net exposure (per cent)	26.1	29.6
Return on operating capital, before provisions (per cent)	2.0	6.1

Source: The World Bank Group Annual Report, 2007.



Annex 8

IBRD Loans and IDA Credits—Summary Statistics for Fiscal Year 2007

(millions of US dollars)

By Area	IBRD	IDA	Total
	Amount	Amount	Amount
Africa	37.5	5,759.4	5,796.9
East Asia and Pacific	2,806.6	1,237.4	4,043.9
Europe and Central Asia	3,340.1	422.1	3,762.2
Latin America and the Caribbean	4,353.3	200.0	4,553.3
Middle East and North Africa	691.9	216.0	907.9
South Asia	1,599.5	4,032.1	5,631.6
Total	12,828.9	11,867.0	24,695.8

By Theme	Total Amount
Economic Management	248.3
Environmental and Natural Resources Management	2,017.0
Financial and Private Sector Development	4,260.8
Human Development	4,089.4
Public Sector Governance	3,389.7
Rule of Law	424.5
Rural Development	3,175.7
Social Development, Gender and Inclusion	1,250.3
Social Protection and Risk Management	1,647.6
Trade and Integration	1,569.9
Urban Development	2,622.7
Total	24,695.8

Source: The World Bank Group Annual Report, 2007.



Annex 9

Projects Approved for IBRD and IDA Assistance in Fiscal Year 2007, by Region and Country

(millions of dollars)

Region/country	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
Africa						
Africa—region			4	707.2	4	707.2
Angola			1	102.0	1	102.0
Benin			3	105.0	3	105.0
Burkina Faso			2	84.0	2	84.0
Burundi			3	120.0	3	120.0
Cameroon			1	80.0	1	80.0
Cape Verde			1	15.0	1	15.0
Central African Republic			2	100.0	2	100.0
Chad			2	25.0	2	25.0
Comoros			1	5.0	1	5.0
Congo, Democratic Republic of			2	330.0	2	330.0
Congo, Republic of			1	35.0	1	35.0
Ethiopia			5	630.0	5	630.0
Gambia, The			1	12.0	1	12.0
Ghana			3	205.0	3	205.0
Kenya			6	395.0	6	395.0
Lesotho			2	31.6	2	31.6
Liberia			3	30.0	3	30.0
Madagascar			9	151.6	9	151.6
Malawi			3	70.0	3	70.0
Mali			5	205.0	5	205.0
Mauritania			2	18.0	2	18.0
Mauritius	1	30.0			1	30.0
Mozambique			3	200.0	3	200.0
Namibia	1	7.5			1	7.5
Niger			3	70.0	3	70.0
Nigeria			6	750.0	6	750.0
Rwanda			3	70.0	3	70.0
Senegal			4	145.0	4	145.0
Sierra Leone			2	48.0	2	48.0
Tanzania			3	432.0	3	432.0
Uganda			3	540.0	3	540.0
Zambia			2	48.0	2	48.0
Total	2	37.5	91	5,759.4	93	5,796.9



**Projects Approved for IBRD and IDA Assistance in Fiscal Year 2007,
By Region and Country (cont'd)**
(millions of dollars)

Region/country	IBRD loans		IDA loans		Total loans	
	No.	Amount	No.	Amount	No.	Amount
East Asia and Pacific						
Cambodia			1	18.5	1	18.5
China	10	1,641.0			10	1,641.0
Indonesia	3	770.8	2	388.5	5	1,159.3
Lao People's Democratic Republic			3	28.0	3	28.0
Mongolia			2	36.5	2	36.5
Papua New Guinea			1	37.3	1	37.3
Philippines	4	394.8			4	394.8
Samoa			0	8.3	0	8.3
Timor-Leste			2	8.5	2	8.5
Vietnam			8	711.8	8	711.8
Total	17	2,806.6	19	1,237.4	36	4,043.9
South Asia						
Afghanistan			6	311.8	6	311.8
Bangladesh			6	379.0	6	379.0
Bhutan			3	30.0	3	30.0
India	7	1,499.5	8	2,251.3	15	3,750.8
Nepal			3	103.2	3	103.2
Pakistan	1	100.0	6	884.8	7	984.8
Sri Lanka			2	72.0	2	72.0
Total	8	1,599.5	34	4,032.1	42	5,631.6
Europe and Central Asia						
Albania	3	45.6	1	33.7	4	79.3
Armenia			4	97.5	4	97.5
Azerbaijan	2	260.0			2	260.0
Bosnia and Herzegovina			3	39.4	3	39.4
Bulgaria	4	344.6			4	344.6
Croatia	4	522.1			4	522.1
Georgia			4	74.0	4	74.0
Kazakhstan	1	24.3			1	24.3
Kosovo			3	18.5	3	18.5
Kyrgyz Republic			3	36.0	3	36.0
Macedonia, former Yugoslav Republic of	3	70.0			3	70.0
Moldova			3	43.0	3	43.0
Montenegro			1	10.0	1	10.0
Poland	1	184.0			1	184.0
Romania	3	349.4			3	349.4



**Projects Approved for IBRD and IDA Assistance in Fiscal Year 2007,
By Region and Country (cont'd)**
(millions of dollars)

Region/country	IBRD loans		IDA loans		Total loan	
	No.	Amount	No.	Amount	No.	Amount
Russian Federation	2	60.0			2	60.0
Serbia	5	167.4		20.0	5	187.4
Tajikistan			4	35.0	4	35.0
Turkey	3	1,158.3			3	1,158.3
Ukraine	1	154.5			1	154.5
Uzbekistan			1	15.0	1	15.0
Total	32	3,340.1	27	422.1	59	3,762.2
Latin America and the Caribbean						
Argentina	9	1,748.7			9	1,748.7
Bolivia			1	30.0	1	30.0
Brazil	7	284.8			7	284.8
Chile	2	41.7			2	41.7
Colombia	6	1,101.8			6	1,101.8
Dominica			1	1.4	1	1.4
Ecuador	3	111.0			3	111.0
Guatemala	3	242.3			3	242.3
Haiti			5	68.0	5	68.0
Honduras			2	39.0	2	39.0
Mexico	0	29.0			0	29.0
Nicaragua			2	42.0	2	42.0
OECS Countries			1	14.2	1	14.2
Panama	3	105.4			3	105.4
Paraguay	1	74.0			1	74.0
Peru	4	420.0			4	420.0
St. Lucia			1	5.3	1	5.3
Uruguay	5	194.6			5	194.6
Total	43	4,353.3	13	200.0	56	4,553.3
Middle East and North Africa						
Djibouti			0	2.0	0	2.0
Egypt, Arab Republic of	2	182.1			2	182.1
Iraq			2	164.0	2	164.0
Jordan	3	121.0			3	121.0
Morocco	3	300.0			3	300.0
Tunisia	2	88.8			2	88.8
Yemen, Republic of			3	50.0	3	50.0
Total	10	691.9	5	216.1	15	907.9
Overall Total	112	12,828.8	189	11,866.9	301	24,695.8



Annex 10

Canadian Contributions to World Bank Trust Funds

Beyond the financial resources that Canada provides to the Bank through capital subscriptions, IDA replenishments and multilateral debt relief, we also contribute to a number of the Bank's multi-donor trust funds.

The table below shows Canada's contributions over the past few years. These trust funds have been set up to mobilize donor resources to address key strategic development priorities at country level.

CIDA Disbursements Through World Bank Group Administered Trust Funds

(millions of dollars)

	2004-05	2005-06	2006-07	April 1- December 31, 2007	Total since FY04/05
	279.0	146.4	292.1	197.9	945.4

Key disbursements in FY06/07 and FY07/08 (until December 31, 2007) include:

(millions of dollars)

	FY06/07	FY07/08 (until December 31, 2007)
Afghanistan various	102.0	183.3
Ethiopia various	55.4	0.1
EFA-FTI	24.0	-
Tanzania PRSC	20.0	-
Caribbean Catastrophe Risk Insurance	20.0	-
Indonesia various	13.2	2.0
Vietnam Various	7.5	-
PanAfrica various	5.2	1.0
Senegal PDMAS	5.0	-
Iraq IRFFI TF	5.0	-

Note: Includes only contributions above \$5 million.



The World Bank also acts as a financial administrator for a number of global initiatives, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the Global Alliance for Vaccines and Immunization (GAVI Alliance), the Global Environment Facility (GEF), the Advance Market Commitment (AMC) and the Consultative Group on International Agricultural Research (CGIAR). The table below shows Canada's contributions to these initiatives.

Canadian Contributions to Global Initiatives administered by the World Bank

(millions of dollars)

	2001–02 to 2005–06	2006–07	2007–08	Total
CGIAR	\$102.9	\$17.8	\$13.3	\$134.0
AMC	–	–	\$115.0	\$115.0
GFATM	\$278.4	\$250.0	–	\$528.4
GAVI	\$182.0	\$6.0	–	\$188.0
GEF	\$228.2	\$9.2	\$43.8	\$281.2

Source: Canadian International Development Agency, February, 2008.



Annex 11

World Bank Procurement from Canada

Disbursements by IBRD and IDA Borrowers:
Goods and Services From Canada—To June 30, 2006
(millions of US dollars)

	IBRD	IDA	Total
	Amount	Amount	Amount
By Fiscal Year			
1997–98	82	32	114
1998–99	69	37	106
1999–00	73	22	95
2000–01	45	15	60
2001–02	48	16	64
2002–03	41	20	61
2003–04	41	30	71
2004–05 ¹	56	35	91
2005–06 ¹	24	14	38
2006–07 ²	28	12	40

¹ As of fiscal year 2005, data reflects goods and service contracts awarded and not payments.

² 2006–07 estimates.

Source: World Bank, 2007.



Annex 12

World Bank Borrowings in Canada

During calendar year 2007, the IBRD issued one bond denominated in Canadian dollars, the IBRD's C\$850 million 4.30 per cent Global Bonds due December 15, 2012.